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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q3 results 2014 analyst conference call. I'm Selina, the Chorus Call operator. (Operator Instructions). The conference must not be recorded for publication or broadcast.

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

Please go ahead gentlemen.

David Hancock - *Adecco S.A. - Head of IR*

Thank you. Good morning, and welcome to Adecco's third quarter 2014 results conference call. Patrick De Maeseneire, Group CEO, and Dominik de Daniel, Group CFO, will lead you through the presentation today, followed by a Q&A session.

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

Let me give you a quick overview of today's agenda. Patrick will present the operational highlights, followed by an overview of the country performances. Then Dominik will review the financials and finally, Patrick will make some comments on the outlook. We will then open the lines for your questions.

With that, Patrick, I hand over to you.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Thank you, David. Good morning, ladies and gentlemen. I will start with the highlights of the third quarter where my colleagues around the world delivered another good performance. We had revenues of EUR5.2 billion, an increase of 4% in constant currency.

Gross profit grew by 5%, underlying and in constant currency, and the gross margin was 18.4%. On an underlying basis, the gross margin was up 10 basis points year on year.

Costs continued to be well controlled. SG&A, at constant currency and excluding restructuring costs, was up 2% year on year and down 2% sequentially.

This resulted in EBITA, excluding restructuring costs, of EUR280 million. The EBITA margin, excluding restructuring costs, was 5.4%, up 40 basis points on an underlying basis.

Revenues were up 2% for September in constant currency and adjusted for trading days.

Our current share buyback program of EUR250 million is close to completion. We announced today that after its completion, we will launch a new share buyback program, also of up to EUR250 million.

Let's have a look at the third quarter operating performance in more detail now. On this, and the following slides, I will give all growth rates organically unless otherwise stated.

I will start with the revenue development by region. In Europe, revenue growth was 2% in the quarter with a slowdown from 5% in Q2, mainly coming from France and Germany. Within Europe, the strongest growth rates continued to be in Iberia and Italy.

In North America, growth picked up further to 5% after an increase of 3% in Q2. This growth was driven by strong performances in industrial and medical and science.

The rest of the world was again up 5%. In Japan, revenues were up 4% in the quarter. In Australia and New Zealand, our revenues declined by 8% but here we have now turned the corner.

Emerging markets revenues grew 9%, led again by continued double-digit growth in Eastern Europe.

Looking next at the revenue development from a business line perspective, we see that the industrial business continues to be the main driver of growth. In Q3 2014, revenues in industrial grew by 6%, below the 8% growth in the previous quarter. This is mainly due to the softening of growth in Germany and France, whereas the growth further accelerated in North America.

In office, revenues grew by 1% year on year, a slight improvement compared to Q2, as our office business in North America and Japan returned to growth.

Professional staffing revenues grew by 1%. This was just below the 2% seen in Q2.

Finally, within our solutions business line, we saw continued strong double-digit revenue growth in our VMS, MSP and RPO businesses.

We also have a look now at the third quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 2% this quarter after 4% growth in Q2.

Revenues from permanent placement grew strongly, up 15% in Q3, a further improvement from the 8% growth in the previous quarter. This acceleration is being driven by very good performances in several European countries where we have been investing in our perm staffing in the past quarters.

Growth in outplacement sloped further to 5% this quarter from 9% in Q2, mainly due to softer demand in North America.

We now go through our main markets in more detail. In France, revenues were down 3% on the prior year. Revenue growth in our large industrial segment turned negative with minus 1%, after being slightly positive in Q1 and Q2. Revenues in office and in professional staffing continued to decline.

From an industry perspective, we continue to see growth in automotive and food, but demand remains subdued across most other sectors.

In the construction sector, the activity weakened further this quarter, with revenues declining 11%.

Perm revenues in France were up 15% this quarter compared to up 5% in Q2, again, driven by our investments in this area. The EBITA margin was strong at 6.6%. Please note that in Q3 2013, the reassessment of CICE resulted in a benefit relating to prior periods of 190 basis points on the French EBITA margin.

This impacts both the reported profit growth and the margin development year on year this quarter. Excluding this effect, the EBITA margin, excluding restructuring costs, increased by 110 basis points year on year. In September, revenues were down 5%, adjusted for trading days.

We turn next to North America. Revenues were up 6% in constant currency or 5% organically, with growth of 7% in general staffing and 3% in professional staffing.

Within general staffing, we saw good growth in the industrial business, at 12%. This was again driven by good demands from the logistics, chemicals and technology sectors. After five quarters of decline, the office business returned to growth of 1%, as financial services returned to growth.

Within professional staffing, we saw growth across all our business lines, with 2% in IT; 1% in engineering and technical; 5% in finance and legal; and 15% in medical and science. In perm, we delivered another strong performance, with revenue growth of 10%, driven by a very strong September.

The EBITA margin, excluding restructuring costs, was 6.1% in the quarter 3, up 170 basis point year on year. Last year, an assets write-down negatively impacted the Q3 margin by 30 basis points. In September, revenues were up 5% adjusted for trading days.

We now go to the UK and Ireland. Revenues overall were up 1%, with professional staffing up 2% and office down 1%. In our large IT segment, revenue growth was 3%.

Revenue growth in permanent placement continued to outpace the growth in temporary staffing. Perm revenues were up 9% in the quarter. This drove a good improvement in profitability.

The EBITA margin was 2.7%, up 50 basis points compared to last year's EBITA margin, excluding restructuring costs. Revenues in September were down 1%, adjusted for trading days.

As we announced last quarter, due to changes for some of our UK master vendor and related sub-supplier agency contracts, third-party revenues that were previously reported gross, will now be reported on a net basis. This has the effect of reducing the reported rates of revenue growth in the UK and Ireland. Excluding this impact, revenue growth in Q3 and in September would have been 4% higher than reported.

In Germany and Austria, revenue growth decelerated to 1% in Q3 from 7% in Q2. This slowdown reflects two factors. First, the impact of price inflation has reduced to 1% compared with approximately 4% in the second quarter.

Second, demand in parts of the automotive and equipment manufacturing sectors has weakened, negatively impacted by geopolitical uncertainties. This is evident in the slowdown in our industrial business line, with growth of 2% in the quarter compared to 11% in Q2.

Revenues in professional staffing fell by 1%. Engineering and technical, which is our largest professional staffing business, declined by 5%, largely offset by good growth in IT. In our perm business, revenue growth accelerated to 45%, as we began to see the benefit of our investments in this area in Germany.

EBITA was EUR36 million, giving an EBITA margin of 8.3%. This was down 70 basis points year on year, negatively impacted especially in the automotive business by a higher bench, since in Germany, as you know, we have all the people on the payroll. In September, revenues were down 2%, adjusted for trading days.

In Japan, the revenue growth accelerated to 4% from 2% in Q2. In general staffing, revenue growth was 2%, while the growth rate was again high single digit in our smaller professional staffing business.

Profitability remained good at 5.9%, although this was down compared to the prior year, when we had an especially good quarter in our outsourcing business. In September, revenues were up 5%, adjusted for trading days.

Finally, in terms of regional performance, I'll touch briefly on some of our other markets.

Iberia and Italy continued to deliver strong revenue growth, up 21% and up 15%, respectively. In Australia and New Zealand, our performance has begun to improve, with a return to profitability in Q3.

In Lee Hecht Harrison, revenue growth was still 6%, while the margin remained strong at 25.6%. Yet again, Lee Hecht Harrison outperformed the market on the top and bottom lines.

With this, I hand over to Dominik to take you through the financials in more detail.

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

Good morning, ladies and gentlemen. I will start with an overview of the P&L. Patrick already mentioned operating highlights in his introduction; revenues of EUR5.2 billion and EBITA of EUR275 million, or EUR280 million excluding restructuring costs.

EBITA excluding restructuring costs, increased by 1%, or by 13% in constant currency and on an underlying basis. In Q3 2013, the reassessment of the French CICE resulted in a benefit relating to prior period of 50 basis points on the temporary staffing gross margin and on the EBITA margin of the Adecco Group.

Underlying refers to the Q3 2014 year-on-year change excluding this effect.

Looking further down the P&L, the effective tax rate was 22% this quarter, due to the successful resolution of prior-year audits, as well as the expiration of the statute of limitations in several jurisdictions. Net income grew by 4% and basic EPS grew by 6%, helped by the ongoing share buyback program.

Now we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currency, acquisitions and trading days for each quarter, compared to the long-term sequential median growth for that quarter. In this way, we show the sequential growth adjusted for seasonality.

Based on this analysis, we can see that we have been back in line with the long-term growth trend since Q1 2013. However, sequential growth from Q2 to Q3 this year showed a slight underperformance compared to the long-term trend, driven by Germany and the Nordics. Japan was above the long-term trend and all the other regions were in line with the long-term trend.

While we are careful not to read too much into the sequential analysis on a monthly basis, we note that October again showed an equal sign for the Group.

Next, let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 18.4% in Q3 2014. As mentioned before, in Q3 2013, the reassessment of the French CICE resulted in a benefit relating to prior periods, which amounted to 40 basis points on the Group gross margin.

Excluding this effect, in Q3 2014, temporary staffing had a 10 basis points positive impact on the gross margin year on year, driven by our continued strict approach to pricing, as well as the fact of the French CICE.

The improvement in perm placement had a positive effect of 20 basis points. Outplacement was neutral, while other activities had a negative effect of 20 basis points.

Now let me discuss our cost base development in the third quarter. We continued to monitor revenue developments closely and managed the cost base accordingly. SG&A in Q3 was up 2% compared to the same quarter last year in constant currency and excluding restructuring costs. This is in line with the increase in headcount, with FTEs up 2% year on year.

Our Q3 2014 results included restructuring costs of EUR5 million, compared to EUR3 million in the same period last year. Sequentially, our cost base was down 2% in constant currency and excluding restructuring costs, reflecting the normal seasonal pattern. FTE was stable sequentially.

Turning to the cash flow statement. In Q3 2014, cash flow from operating activities was EUR268 million, compared to EUR281 million in the same period last year. DSOs in Q3 2014 were 54 days, the same as in Q3 2013.

In Q3 2014, the Group invested EUR20 million in CapEx and spent EUR118 million on the purchase of shares. We also acquired OnForce to enhance our Beeline service offering. To date, under our share buyback program of up to EUR250 million, we have acquired 4.3 million shares for a total consideration of EUR239 million.

Net debt at the end of September 2014 decreased to EUR1.1 billion compared to EUR1.3 billion at the end of Q2. Our net debt to EBITDA ratio stood at 1.1 times at the end of Q3 2014.

Looking forward, our financial guidance is as follows. CapEx for the year is expected to be approx EUR80 million. Interest expenses, excluding interest income, is expected to be around EUR70 million for 2014. We anticipate corporate costs of up to EUR110 million. And amortization of intangible assets is expected to be approx EUR35 million.

In response to recent market developments, in Q4 2014, we will spend an additional EUR15 million to further structurally improve our profitability in certain key markets, such as Germany. This is in addition to the remaining EUR5 million planned spend for the headquarter consolidation in North America. This means that the total restructuring spend for the Group in 2014 will be approx EUR35 million, out of which EUR20 million will occur in Q4.

For Q4, the effective tax rate is expected to be around 27%. SG&A in Q4 is expected to increase slightly compared to Q3, organically and excluding restructuring costs, reflecting the normal seasonal pattern.

Finally, I turn to an update to our capital allocation strategy. As you know, we have a shareholder friendly approach to the use of capital. In 2011, we increased our dividend payout ratio to 40% to 50% of adjusted net earnings. Furthermore, we are committed to pay at least a stable dividend compared to the previous year, even if the payout ratio is temporarily exceeded, barring seriously adverse economic conditions.

In addition, as a result of our decision not to pursue acquisitions in our staffing business for the foreseeable future, we also initiated a series of share buyback programs. In July 2012, we began a share buyback program of up to EUR400 million. When this was completed in September 2013, we launched a new program of up to EUR250 million.

This second share buyback program is now close to completion. And this morning, we announced that after the completion, we will launch a new share buyback program, also of up to EUR250 million. With this, I hand back to Patrick.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Thank you, Dominik. Now let me finish with our outlook.

Growth in Q3 slowed compared to the first half, mainly driven by weaker growth in France and Germany. We exited the quarter with revenue growth of 2% in September and we saw similar growth in October, both organically and adjusted for trading days.

This lower exit rate reflects uncertainty in some parts of Europe. By contrast, activity is improving in North America and we see a more broad-based pickup in our business there. Based on these trends and the re-acceleration of GDP growth that is forecasted for next year, we expect demand for flexible labor to improve again over the course of 2015.

Given the current development in profitability and the additional structural cost improvement measures we announced today, we are convinced we will achieve our EBITA margin target of above 5.5% in 2015.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chris Gallagher, JPMorgan.

Chris Gallagher - *JPMorgan - Analyst*

I'd just like to ask, in terms of October, what you're seeing in terms of regional split. So Australia and New Zealand are getting better and France a little bit worse but what about some of the other areas?

And also, on the EUR15 million restructuring in Q4, what are you going to use that for? Thank you.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Maybe I'll take the first one on the development in the different regions. We see a similar development in most of our regions. We see a slight improvement in the US, maybe a slight -- from the exit rate that we had in Japan, maybe a slight decline there. And in Europe, October is really similar to the exit rates that we have mentioned for September.

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

Maybe an additional remark. If you compare the prior year, we had in prior year September, an exit rate for the whole Company of minus 1% and October was plus 3%. So we see a similar development compared to a tougher comp in this respect.

If you look to the restructuring, this EUR15 million, this is mainly related to the fact that in one of the other countries, we see that we can take costs out, as the growth is so far not there.

But it's also related to reorganization. We'll do some reorganization of the professional staffing business in Germany. We'll do some reorganization also in Japan. So these [stable] projects overall EUR15 million spending in Q4. And this should give us a cost saving of close to EUR20 million next year.

Chris Gallagher - *JPMorgan - Analyst*

Okay, thank you.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Three questions if I may. First, can you comment on the German trends? Is the reduced demand a top priority thing for you, notably in the auto segment? Or do you think it should carry on?

Second; can you share with us why do you believe that you can still achieve your above 5.5% EBITA margin target in 2015 given slower top-line growth? And do you expect a one-year payback for the EUR15 million investment please?

And lastly, can you comment on the tax rate for Q4? You said 27%. Is it not too conservative like you did in Q3? Thank you.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Laurent, I will take your second question on the 5.5% target and Dominik will take care of your other questions. On the 5.5%, yes, Laurent, we are still confident that we can achieve this target as we also said during our Investor Day in Rome.

For this, the growth next year has to slightly improve from the rate we have had in the first half. As you know, we were between 5% and 6% for the first seven months of the year, and we said clearly in our Investor Day, it should slightly improve from this level into next year, in order to achieve our target.

Now as we also said there, there are three components, of course, to the 5.5%. There is the top line, there is the gross margin and the costs. As you have seen already in the past, and as you have seen also this quarter, our costs are very well managed. Sequentially, they're down minus 2%. And we will continue to manage them in the future along with the top-line development and very tightly.

If you look at the gross margin development, we are rather happy with the development there and we see some further improvement possibilities, especially with the perm accelerating. It has now accelerated from 8% to 15% in the third quarter and we see a further improvement also for the fourth quarter, especially because we had a very strong September in the US; the 10% was really made by a very strong September. So we see further improvement in our perm development in Q4 and also into next year, which should help also on the gross margin side.

And then, as far as the top-line acceleration is concerned, you know if I take the most conservative GDP outlook from the IMF for this year, it has been revised down to 0.7% and it has been revised down to 1.2% for next year. But this is still an acceleration into next year and we always said in the past we need 1% GDP growth in Europe in order to have this kind of high single-digit growth in our business.

And if we look at the recent past, also last year in the third quarter, we were at 0% and it moved to plus 6% in the first quarter, also in a modest GDP environment and in a slight improvement of GDP. So as you have seen and as you will see in our business, it can move fast.

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

And yes, to your other questions, let's first have a look to the German trends. In the German trends, you have, of course, also to consider that we had at the beginning of the year a rather high wage inflation. So if I look back to Q1, we had a wage inflation of 7%, not demand driven, just driven by the fact of the wage inflation related to the collective wage agreements and penal systems which were implemented in Germany.

And every quarter, we come now to a base comparison, so the kind of component of bill rate or pay rate inflation in Q3 is now -- is only less by 1%, it goes down from 4% in Q2 to 1% in Q3. So this was definitely one trial of the (inaudible) in Germany.

If we then look to our development within Germany, it's what we basically said also at the Investor Days. We have seen that in Germany, the seasonal pickup in September was somewhat weaker than what we had thought we experienced and, therefore, we had excess weight of minus 2% in September in Germany.

And where that is coming from, part of the automotive suppliers, there was one -- not suppliers, the OEM producers, one was sending a couple of temps back and the other ones partly postponed decisions, but they are a more volume supplier; the kind of luxury carmakers. There, the demand situation is still very, very good.

And maybe here and there, one or the other machinery industry has not seen the seasonal pickup. But I think this is somewhat also in line with the rather weak GDP growth in Q3 in Germany and we still believe also if we talk to our clients, this is a lot sentiment driven, that just certain decisions or projects get postponed.

And if I'm also here referring to certain GDP expectations for next year, we believe that there's definitely upside potential from this point of view. Maybe not for the rest of the year; for October, we see the similar trend what we have seen in September. On all the year, we have to be on mind that we had a rather good acceleration last year from September to October. So that's to Germany.

What is the payback period of the EUR15 million? I said when I answered the question of Chris, I said the same, it should be close to EUR20 million, so that would mean the payback period is around nine months.

To the tax rate, if you look to the tax rate, sometimes in one or the other quarter, we have a couple of discrete events and we had some and that's the reason why the tax rate in Q3 was lower than our guidance.

If you look for the effective tax rate for the first nine months, it's 27%. So these discrete events happened now last quarter and therefore, I think you should use the guided one and if there's a discrete event, it will adjust, but I think for the time being, they have no knowledge about a discrete event and therefore, you should use this one.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

That's great. Thank you very much.

Operator

Nicholas de la Grense, Bank of America Merrill Lynch.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Two from me please. Firstly, you've been pointing to the industrial staffing outperformance in recent quarters as evidence that we're still early in the business cycle and reason to be optimistic. Given that industrial has now slowed for the last two quarters and we haven't seen a corresponding pickup in the other segments, are you still confident that we're in that early phase of the cycle and that we can accelerate from here?

And sorry, the second one is just, if we were to assume that organic growth in 2015 was lower than current consensus, let's say something like 3%, what would you expect your underlying cost growth to be? Thanks.

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

So if we look to the development and you're right, the industrial business was the growth driver and it decelerated a bit, but we have also looked why it decelerated. It was primarily France and also Germany.

If I look to North America, where the economic environment is in a good shape, industrial growth is still doing extremely well, or slightly accelerating. And we had in Q1 industrial growth of 9%, in Q2 10%, in Q3 12% in the US. So it's still a continuous trend there.

We see in the US that office business is finally coming back to growth, not a lot, only 1%. But there we're seeing it now; before it was always a lot down because financial services were weak. And we see that, in the US, some of the other professional skills are starting to get somewhat better. We have not seen this in Europe or in Continental Europe because GDP growth unfortunately the last months rather weakened.

And we would think if we would see a re-acceleration in GDP, that it's again in the beginning driven by industrial, and later then in the other segments, especially in Europe. But in the US, we see that the other segments are coming now up.

And then your second question was related to?

Patrick De Maeseneire - *Adecco S.A. - CEO*

What the cost base would be if we would growth 3% in 2015.

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

What the cost base would be.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Cost increase.

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

The cost increase for next year depends on the top-line growth. We basically manage our cost base very close to sales and revenue development. And it depends also somewhat on the mix. Also, if we have products with higher gross margin, like account product, or like operating product doing well, or MSP, it has also some mix effect. But we will manage our cost base very, very, tight and very carefully.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Sorry, just to follow up on that. Obviously, I'm not looking for you to give me the exact number for next year by any means, but it's more just to get an idea of what -- if you didn't grow at all, how much your costs would grow, so the level of wage inflation or increased (inaudible).

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

If we have no growth in sales next year, then we will take costs down and the costs should be a little bit down.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Okay, thank you.

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

We try always to protect profitability if we have no growth or sales decline. And one driver is then also cost management.

If you look back to the year 2012 we had a sales decline of 4%. And our EBIT margin, I think, was down 10 basis points. Yes, there is of course then the effect coming in that the outplacement business is helping, but it's not so big this outplacement business, it's basically helping. But we have to take the costs out.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Okay, thank you very much.

Operator

Alain Oberhuber, MainFirst.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Three questions from my side.

The first is about gross margins, a little bit looking into the future. So if we split it up, I expect that CICE next year will have no impact on the gross margins whatsoever. Will we see then, given what you said with stronger growth in professional, temp will have a positive impact on the gross margins, and the perm will remain flat and outplacement as well flat? So per se, the improvement in gross margin next year is probably more about 10 to 20 basis points. So is there a mistake in that thinking?

The second question is about DSO. Will that remain flat as well for the -- or could we see a further reduction if we expect a slower growth next year, just to about 3%?

And the last question is about the margin development in Japan. You mentioned that there was a good pickup in organic growth but EBIT margins came down. Could you now expect an improvement in the next couple of quarters of the EBIT margin as well?

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

If we first look to the gross margin trend, always we have a very strong gross margin I would say. And you're right, that CICE will not give an additional benefit. But the good thing is EBIT is still in place so it will definitely continue to help in this respect.

I would say it depends of course on the country, on the business line mix, how the temp margin is going. This is definitely the case. If one profession starts to outgrow general staffing, it is gross margin supportive. I would be a bit more optimistic on perm, because on perm we have all the takings throughout an investment. And you see this now with our growth in perm of 15%. It adds 20 basis points to the gross margin in this respect.

And we will see how the mix is working. Based on our economic expectations and our growth expectations for next year, I think the margin increase will primarily -- to a large extent comes from operational leverage. But there is still a bit of upside in gross margin. But the gross margin itself is already very strong I would say.

DSO, 54 days; it's a pretty stable number since some time. I see no reason that it changes in one or the other direction.

In general, and if you look to Japan, in Japan, what Patrick also said in his introduction remarks is, the margin is somewhat down because last year it was very strong because we finished a very important outsourcing project. It had a good profitability. So it was, from a margin point of view, a bit of a not easy comparison. Will the margin now immediately grow next quarter? I would not go in this way. But we will not see such a decline.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Thank you very much.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

I wondered if it's possible to walk us through a little bit more the near-term outlook for profitability in France and the US? So obviously, you've given some comments on France a little bit already. But your top line, if you were to continue at minus 5% in Q4, Q1, and you are annualizing CICE at the end of this year, how strong do you view the perm trends for you in France? And how sustainable? And what are you doing to the SG&A there?

And then maybe just on the US leverage. Obviously, it's been pretty significant over the last three years, a very high level of incremental drop-through in the US. To what extent are you actually putting SG&A into the US now? And what is the outlook for leverage there, please?

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

If we just have a look on France, there is definitely a positive strong trend. Of course, this has more to do, in our view, with our investment in this respect and then because the accounting environment is not one where you expect a lot of perm growth.

So the question is, of course, always how long can something like this hold up if the GP growth is not coming. Materially, even if it comes a little bit back, it will help the temping business, but it will most likely not help the overall labor market.

But it's also fair to say that yes, we have a very good margin increase currently, but still even last quarter, if you strip out the -- if you look to the 110 basis points increase, it's not only gross margin. There is still a small part of operational leverage which indicates to you that our cost base run rate is still below sales development. And, yes, in a country like France we try to be very careful on cost side, yes, and part of the EUR15 million, not the biggest part, but part of the EUR15 million we would also take for France to take some cost out.

If we look to North America, you're right, we had good margin increase. Now for Q3, you have to consider and we said it also in the call last year, we had a write-down of an asset. And it's also fair to say that last year, and we mentioned this last year in Q3, the margin was a bit low because we had some adverse effects on healthcare costs for our internal people which has an impact, so we compare here a bit now better. But you will see also in the next quarter that operational leverage will be good. Not so strong like in Q3 but it will be very solid. And one reason is that we see very good perm trends in the US.

Are there markets where we make the selective investment which you mentioned? Yes. And this is -- in the US we make (inaudible) but it's rather selective.

I think for the staffing business in the US, we still have in the bigger businesses like IT where the growth rate is not very high with 2% [billing] of capacity. We don't have to add. Do we have to add here in the industrial business, especially now for the ramp-up after Thanksgiving? Yes. And here and there in perm, so we're adding a bit of headcount in the US but operational leverage will continue to be good.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thank you. And just if I can follow up on those two. In France, if you were, let's say, at the same year-on-year movement in revenues in say Q1 when there's probably no CICE. Let's say there's no CICE benefit again. Is the SG&A -- is your flexibility on SG&A, do you think you can still hold profitability? Would you even think you could maybe increase profitability still in France if you (multiple speakers).

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

I would not go that far. I would say it would be pretty stable of course assuming that the CICE environment or the price environment stays like it is.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thank you. And then just on the US leverage. Could you please give a firm split by geography now? That would help, looking at the US, please.

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

What do you mean by geography?

Tom Sykes - *Deutsche Bank Research - Analyst*

So just -- what's the overall Group perm split by geography now please? And so, therefore, how much of the US is actually perm.

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

If you look to North America, it is -- the perm [fees] is roughly 10% of the -- it's 12% of the gross profit in the US.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay.

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

And this is primarily -- the big piece is our finance and legal business. That is the big piece where we have our perm business.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay.

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

On markets where we have more perm exposure relative to the over (inaudible) versus the UK, it's more than 20%, but the US has roughly 12% exposure to perm. And this is basically a function of a very high exposure in our finance business and then close to nothing in our industrial business.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thank you. And sorry, do you know where that was on a pro forma basis, if you take into account MPS and Adecco Group at the previous peak at all?

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

Yes, let's say if we look to the previous development, let me think. So we were -- we are today, I would say, 2% lower than the prior peak year currently in terms of gross profit.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, perfect. Thank you very much, Dominik.

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

Welcome.

Operator

Toby Reeks, Morgan Stanley.

Toby Reeks - *Morgan Stanley - Analyst*

Could I ask three as well? The first is just following on from Tom's question. Could you talk about how difficult it is to restructure in France going forward, given your inflexibility on holding on to the CICE and how your clients would perceive potentially a drop in service?

The second one is the American Care Act. It sounds like most people expect that not to have an impact on the business in terms of gross margin, i.e., it will be passed through. What's your expectation at the moment?

And then the final one is, could you update us on the rollout of your IT system? Are we still expecting a 40 basis points margin improvement in 2016 from that alone? Thank you.

Patrick De Maeseneire - *Adecco S.A. - CEO*

First on France. Like Dominik already mentioned in one of the answers, there is a small part of the EUR15 million that we -- the restructuring [note] for Q4 also related to France but it's a small part. It's mainly headquarter related. We are not talking about a social plan here so it's really limited what we are doing, but it's a further cost optimization and, as you know, we're constantly looking at cost optimizations and especially in the French environment, wherever opportunity we see, we will do this. But it's not that this is now a difficult plan or so on, it's really a gradual improvement of our operations.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, but just from the perspective of the CICE and hanging on to that, would your clients be unhappy if you did have to turn round, so say revenues keep going -- becoming negative and you have to decide that you needed to change the front office and go into a social plan/ Would that be a much more difficult thing to do now, given your inflexibility on the CICE or do you not think that's relevant?

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

Really, we are not going for a social plan at this stage (inaudible) plan and I think we have taken structurally a lot of cost out in front and restructured a lot.

It's also the case that we also in France have concepts like CDD, so there we have employees with a limited contract, so if we have attrition, we replace people with CDD contracts to also have some flexibility which we are using. And it's not that because of CICE we are not allowed any more to manage our business how we should manage it.

Toby Reeks - *Morgan Stanley - Analyst*

Okay.

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

And regarding ACA we also think this is not a major threat and we also believe we can pass this on in the US and in general maybe it also comes back to the question of (inaudible).

One reason why our margin in the US is also very strong is that the pricing environment is rather rational there. It's not that we see there a massive price pressure or so on.

And then regarding the IT schedule. This was, when I said it, this was a kind of explanation how systems can help in the productivity over a certain period. And we give more details and we showed you things in our Investor Day in Rome.

And we are now basically on track to roll this step by step out. So we said the first country where we could get all solutions is Japan, where we're currently programming and working on it, which leads there to a little bit of more costs. But I think it will be well done and it will then be implemented and then we go to other markets.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, but I have a note of you guys talking about roughly 40 basis points margin improvements due in 2016 as you switch off the old IT platform. Should I assume that was just hypothetical and it's going to be more gradual and there will be an improvement, but it comes through on a step by step basis? And why has that changed, if it has changed.

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

There is nothing changed. There is nothing changed. What I said always was there are two drivers to get the product, to have the return on this IT spending.

First of all, and this is the most important, when we want to have solution which allows us to have a higher productivity. So the [seller] ratios goes up that our people in the branch can manage more temps by using better technology. And this helps the productivity and of course this productivity should then finally lead to the fact that we have a better capacity in terms of management of additional sales. That is one main driver.

The second driver is of course that we can then, if we implement the new tool, the new systems, we can basically shut down and close down the old ones and save the costs on this side. But this is only coming if the new ones are running. And, therefore, I said, don't expect now for 2015 a lot of impact. It will be end of 2016, I never said it's in 2016, as of 2016 this should [then once] kick in.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, thank you guys.

Operator

Hans Pluijgers, Kepler Cheuvreux.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Two questions from my side. First of all on the share buyback. I saw you had accelerated the buybacks in Q3. Could you give some explanation why you did that? And secondly, for your new buyback what's the schedule there on the time of the buybacks?

And secondly on your corporate costs. You increased a little bit the guidance on the corporate cost. What's the reason behind that and should we assume a comparable level of corporate cost for next year?

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

If we look to the share buyback and basically what is the reason in announcing a new share buyback. We said in Investor Days and also before, we said we are not looking, for the foreseeable future, for acquisitions in the staffing business.

And yes, we bought something and this -- we are also looking in the non-staffing business, we bought this OnForce, but it's a rather small amount. And taking this picture into account and taking into account our policy and our view on redistributing our free cash flow to our shareholders, it just makes sense to announce, after the completion of this program a new one.

Because if you then also look back the recent years or the assumption that we basically -- why our dividend and why our share buyback basically return the whole free cash flow. Because you see that our net debt level, if you look really quite some time, you expect it's pretty stable on around plus/minus EUR1.1 billion/EUR1.2 billion.

And this is basically the next share buyback program, because the other one we only have EUR11 million left, and then we have [today's] results before we announce this now. And say we intend then to do this when the other one is less, which is done, which is of course in the short term.

If you think about corporate costs. Corporate costs we had in Q3, we had the write-down so therefore corporate costs in Q3 were a bit higher than usually. There was the write-down and we increased the guidance basically because we had this write-down. Plus the fact that we have [booked] our global investments in IT. Sometimes investments which are rather linked to corporate and less to countries.

So it's a bit of a rather split country to corporate and I would say for next year you should assume corporate costs more again on this kind of EUR100 million level. And maybe EUR105 million, so in this kind of area.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Going back on the share buyback, I was referring to that I've seen this acceleration in buyback. I understand the reason behind the buyback, but you've doubled the buyback from about EUR50 million in Q2 to EUR118 million, as far as I can see in Q3.

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

Okay, we had in Q3 we had outflow of EUR118 million and of course we do this also somewhat opportunistic and if the share price is lower we buy them more back, yes.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

So also on the new buyback, I could assume that around the current share price you maybe have a higher level than we've seen over the last few quarters, maybe compared with Q3? Is that logical to assume.

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

Say it again.

Patrick De Maeseneire - *Adecco S.A. - CEO*

That's pretty logical to assume, that we would buy back more at the current levels.

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

That's correct.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Thank you.

Operator

Konrad Zomer, ABN AMRO.

Konrad Zomer - *ABN AMRO - Analyst*

Two questions please. The first on permanent placements. You mentioned a few times that you've invested specifically in this business to boost the growth rate. Can you tell us what specifically you've done to increase the growth rate and how sustainable you think this growth could be? Because, obviously, in an environment with, let's say, more debatable macroeconomic growth forecasts, it's counterintuitive to see this business picking up 15% for another year.

And then the second question on Germany. Some of the car manufacturers occasionally close down some production facilities around the Christmas period. If that was to happen again this year, do you have any sense what the impact could be in terms of loss of revenues in Germany on your total German business? Thank you.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Konrad, on your question around perm. Like we said in most countries around the world, especially in those countries where perm was not a big part of our gross profit, we have invested last year and this year in recruiting more perm consultants or transferring people from the staffing side into the perm side. Because you haven't seen our costs go up tremendously, so somewhere else or replacements.

Monitoring the markets and what was going on for us, it's a clear priority. We've also done the rollout in a lot of countries of Badenoch & Clark, which is mainly focusing on perm, also in an organic way, and have recruited for that business people with -- to manage that business people with extensive perm experience in the market.

And if we now see the growth that we had in the second quarter, the 15% from 8%, indeed, you can expect that also in the fourth quarter, this growth should be higher and I already alluded to it when the question came about the 5.5%, that we still see some slight potential gross margin expansion into next year also thanks to the perm. Because, of course, we want these investments that we have done in countries also like Spain and Italy where perm growth is also very high to continue to deliver.

And you know perm consultants, they really become productive after six to nine months, and we are now in that period and that's why we are seeing this acceleration in France, in Germany, but also in other countries that I mentioned like Italy and Spain, and we expect this to continue also into next year.

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

Regarding the [churn] question about the automotive clients, they get a shutdown or not in December, this is very difficult to say. And surely if you ask them, they don't know yet. So it's too early to see what's happening there.

In January, we know how to manage this. We are prepared for these things. We use our time accounts to counterbalance in this respect but, of course, the Q4 EBITA margin in Germany is always lower, with the exception of Q2, than the other quarters because of this risk and because of the bank holidays around this.

Now that said, in Q4 last year, the EBIT margin in Germany was somewhat weaker, also due to the fact that you may recall there was this new system where we have to basically apply [shift] loan, which basically means they always have to go back the last 12 weeks what was the kind of average payment including surpluses, including night shift, including overtime. And we had to -- basically, the balance sheet position of our time accounts readjusted, it had a special hit in Q4 last year.

Konrad Zomer - *ABN AMRO - Analyst*

Okay, thank you.

David Hancock - *Adecco S.A. - Head of IR*

Time for one last question.

Operator

(Operator Instructions). Laurent Brunelle, Exane.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, two quick follow-ups please. On perm, what does it represent as a percentage of gross profit? I have not found it.

And second, can you give or give again the September exit rate in Iberia and Italy please?

Patrick De Maeseneire - *Adecco S.A. - CEO*

Say that again the second question, Laurent?

Laurent Brunelle - *Exane BNP Paribas - Analyst*

The exit rate in September for Iberia and Italy.

Patrick De Maeseneire - *Adecco S.A. - CEO*

The exit rate for these markets, we really don't disclose, but let's say they're a bit at a similar level as what we have seen in the quarter, maybe a touch lower, but only a small touch.

And perm is approximately 10% of our gross profit.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

10%, okay.

Patrick De Maeseneire - *Adecco S.A. - CEO*

A bit less.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

A bit less. Okay, thanks a lot.

Operator

Gentlemen, there are no more questions.

Patrick De Maeseneire - *Adecco S.A. - CEO*

Ladies and gentlemen, thank you very much for your interest in our Company, for attending the call. If we don't meet earlier on one of our roadshows, we speak again on March 11, when we announce our four quarter and full-year results.

Thank you very much and have a good end of the year.

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

Thank you.

Operator

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