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Adecco SA (ADEN.CH)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to the Adecco Q4 and Full-Year 2015 Results Analyst Conference Call. I am Maria, 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 Mr. David Hancock, Head of Investor Relations, accompanied by Mr. Alain Dehaze, CEO, and Mr. Hans Ploos van Amstel, CFO of Adecco Group.

Please go ahead, gentlemen.

David J. Hancock
Head-Investor Relations

Thank you. Good morning. Welcome to the Adecco Group's full-year and fourth quarter 2015 results conference call. To present to you today, I'm joined by Alain Dehaze, Group CEO and Hans Ploos van Amstel, Group CFO. Before we start, please have a look at the disclaimer regarding forward-looking statements in this presentation.

So let me give you a quick overview of today's agenda. Alain will first present the operational highlights and an overview of the country performances. Then Hans will review the financials. And finally, Alain will make some comments on the outlook. We will then open the lines for your questions.

With that, Alain, I hand over to you.

Alain Dehaze
Chief Executive Officer

Good morning, ladies and gentlemen, and welcome to our full-year and Q4 2015 results conference call. First, a few remarks on the results for the full-year 2015 before I go into more detail on our performance in the fourth quarter. On this and the following slides, I will give all growth rates organically, unless otherwise stated.

Revenues for the year increased by 4% to €22 billion. General Staffing grew by 6%, led by the industrial business which grew by 7%. Professional Staffing revenues decreased by 1% and we grew revenues by 5% in Solutions, which comprises our Lee Hecht Harrison, Pontoon, and Beeline brands. Geographically, we saw strong growth in Southern Europe, Benelux and emerging markets. France accelerated towards the end of the year, while North America at broadly stable growth.

Our gross margin was 19%, up 20 basis points on an organic basis, driven by both Temporary Staffing and Permanent Placement. Our focus on cost control was maintained. SG&A, excluding one-offs, was at 3% on an organic basis. All together, these developments led us to achieve a very strong EBITA margin, excluding one-off costs of 5.2%, up 40 basis points. We had a good cash flow performance in the year with cash from operations of €799 million and an operating cash conversion of 87%.

For 2015, the board of directors proposes a dividend of CHF 2.4, an increase of 14% over the prior year, and a 45% payout ratio of adjusted net earnings. This reflects our strong balance sheet, our good cash flow performance in 2015 and our confidence in the outlook.

I will now turn to the fourth quarter results in more detail. We had revenues of €5.7 billion, an increase of 5%. Gross profit grew by 6% and the gross margin was 19.2%, up 30 basis point year-on-year or at 5 basis points on an organic basis. SG&A excluding one-offs was up 4% year-on-year. This resulted in an EBITA excluding one-offs of €310 million. The EBITA margin excluding one-offs was 5.5%, up 20 basis points year-on-year. At the beginning of 2016, revenues in January and February combined were up 4% organically and adjusted for trading days.

Let's have a look at the fourth quarter operating performance in more detail. And I will start with the revenue development by region. In Europe, revenues grew by 6% in the quarter. This acceleration from the 3% in Q3 was driven in particular by improved growth in France. In North America, growth was 1%, the same as in Q3 with strong performances in Industrial, Medical & Science, and Finance & Legal while Office and Engineering Technical declined.

Growth in the rest of the world was 11% in Q4 compared to 10% in Q3. Revenues were up 4% in Japan and were flat in Australia and New Zealand. Emerging markets revenues grew by 16% with double-digit growth in Latin America, Eastern Europe and India.

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 Q4, revenues in Industrial grew by 9%, up from 7% in the previous quarter. In Office, revenues grew by 4% compared to 3% growth in the previous quarter. In Professional Staffing, revenues were flat compared to a decline of 1% in Q3. Finally, growth remained strong in BPO Solutions comprising of VMS, MSP and RPO businesses.

Let's also have a look at the fourth quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 5% this quarter, up from 3% in the previous quarter. Revenues from permanent placements continued to grow strongly, up 14% in Q4 compared to 12% growth in the previous quarter. In outplacement, revenues were flat this quarter compared to growth of 1% in Q3.

Let's go now to our main markets in more detail. In France, revenues were up 5% on the prior year. Revenues in our large Industrial segment increased by 6%. From an industry perspective, construction returned to growth and growth accelerated in logistics, manufacturing and automotives. Permanent placement revenues were up 14% this quarter.

The EBITA margin was strong at 7.9%, up 110 basis points year-on-year. Q4 2015 included a favorable item related to prior year social security charges which added approximately 100 basis points. In January and February combined, revenues were up 6% adjusted for trading days.

We turn next to North America where revenues increased by 1%. In Professional Staffing, growth was 1%. Medical & Science was up 21%, and Finance & Legal was up 9%. IT grew by 1% and Engineering and Technical declined by 9%. General Staffing declined by 1%, and we saw good growth in the Industrial business at 5% which has slightly moderated versus previous quarters.

The Office business declined by 8% in Q4, partly due to continued weak demand from financial services customers. In Perm, revenue growth was 17%, the same as in Q3. The EBITA margin was 6.7% in the quarter, up 20 basis points year-on-year compared to the margin excluding restructuring costs in Q4 2015.

In January and February combined, revenues were up 1% adjusted for trading days.

Turning next to the UK & Ireland, revenues were overall up 1%. Professional Staffing was down 1% with IT flat, Finance & Legal up 2%, and Engineering & Technical declining. Office was up 7%. Perm revenues were flat in the quarter. The EBITA margin was 3.2%, up 80 basis points from the same quarter last year, driven by good cost development. Revenue for January and February combined were up 1%, adjusted for trading days.

In Germany and Austria, revenues were up 3%, helped by the positive effect of more trading days compared to Q4 last year. Our Industrial business line was up 2%, while Professional Staffing was up 4%. Engineering & Technical, which is our largest Professional Staffing business, was flat. IT grew by 16% and Finance & Legal by 4%.

In our Perm business, revenues were flat. The Q4 EBITA margin was 6.3%, compared to 4.5% margin, excluding restructuring costs in Q4 2014. This year-on-year increase was mainly driven by the timing of bank holidays. In January and February, combined, revenues were up 1% adjusted for trading days.

In Japan, revenues grew up or grew by 4% in Q4. Revenues were up 3% in General Staffing, where we are mainly exposed to the Office business, and up 8% in Professional Staffing. In our Perm business, revenues were up 40%. The EBITA margin, excluding one-offs, was 6%, flat year-on-year. In January and February combined, revenues were flat adjusted for trading days.

Finally, in terms of regional performance, I will touch briefly on some of our other markets. Growth accelerated in Benelux, up 15%, and growth remained strong in Italy up 19%, in Iberia up 13%, and in emerging markets up 16%. In the Nordics, we continue to have good growth in Sweden and a decline in Norway, although, here, we are now starting to see an improvement in our performance.

In Switzerland, we have seen the effect of the strong Swiss franc, and our profitability was negatively impacted by pricing pressure, unfavorable mix effects, and costs related to adapting our business to the development in market conditions.

In Lee Hecht Harrison, our EBITA margin, excluding integration costs, was 27.6%, impacted year-on-year by the consolidation of the Knightsbridge acquisition.

And with this, I hand over to Hans to take you through the financials in more details.

Hans Ploos van Amstel
Chief Financial Officer

Thank you, Alain. I will start with an overview of the P&L. Alain already mentioned the operating highlights in his introduction with revenues of €5.7 billion and EBITA, excluding one-offs, of €310 million. EBITA, excluding one-offs, increased by 14% or 9% in constant currency. Reported EBITA was negatively impacted by a write-down of capitalized software of €45 million, following an assessment of our IT strategy. Going forwards, we will focus more on off-the-shelf, modular, cloud-based applications rather than solutions developed in-house.

Now, we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currencies, acquisitions and trading days for each quarter compared to the long-term trends. In this way, we show the sequential growth adjusted for seasonality. After underperforming the long-term trend in Q3, we're now back in line with the trends in Q4.

Next, let's have a look at the year-on-year gross margin evolution. The group's gross margin was 19.2% in Q4 2015, up 30 basis points. Currency effects accounted for 15 basis points of the increase, acquisitions had a positive effect of 10 basis points and the organic increase was 5 basis points.

On an organic basis, permanent placement had a 10 basis point positive impact on the gross margin development, and other activities added 5 basis points, while outplacement had a negative impact of 10 basis points.

Now, let me discuss how our cost base developed in the fourth quarter. SG&A, excluding one-offs, was up 4% organically compared to the prior year. This was mainly driven by a 3% increase in FTEs. In Q4 2015, one-offs were €48 million. This comprised a €45 million write-down of capitalized software and €3 million integration costs in Lee Hecht Harrison related to the Knightsbridge acquisition. Surprisingly, our cost base was up 5% in constant currency and excluding one-offs. This is slightly above the normal seasonal increase, reflecting some discrete cost items that are not formally treated as one-offs. The largest of this was a known cash expense in the Netherlands of approximately €8 million related to changing the defined benefit pension plan to a defined contribution pension plan.

Turning to the cash flow statement. In Q4 2015, cash flow from operations was €298 million compared to over €284 million in Q4 2014. DSO in Q4 were 52 days, the same as the prior year. This quarter, CapEx was €28 million. In Q4 2015, we paid €93 million for the purchase of treasury shares. In January 2016, we completed our share back program of €250 million launched in November of 2014. Under this program, we acquired a total of €3.9 million shares.

For 2015, the board of directors proposed the dividend of CHF 2.4 per share. This represents an increase of 14% over the prior year and is a payout ratio of 45% of adjusted net earnings, in line with our policy of a payout ratio of 40% to 50%.

Finally, net debt at the end of December 2015 decreased to €1 billion compared to €1.2 billion at the end of September. Our net debt-to-EBITA ratio was at 0.8 at the end of Q4 2015.

And with that, I hand back to Alain.

Alain Dehaze
Chief Executive Officer

Thank you, Hans. Today, we have announced recommended cash offer for Penna Consulting Plc of £3.65 per share, representing a total offer value of £105 million on a fully diluted basis. Penna is an human resources services company with three business units: career transition, talent development and recruitment solutions. Penna works with 70 of the 140 companies and with high profile public sector bodies.

The transaction is in line with our acquisition strategy. It will broaden and strengthen our existing operations in Professional Staffing and Solutions, it offers meaningful synergy potential, and it is expected to deliver positive EVA within three years.

Let me now comment on the current trading. In Q4 2015, organic revenue growth of 5% was slightly above the 4% for the first nine months of the year. This was mainly due to improved growth in France. Growth in most other markets was broadly similar to the year as a whole. At the start of 2016, this underlying revenue momentum has continued, although the comparison base is tougher than for Q4 2015.

In January and February combined, group revenue growth was 4% organically and adjusted for trading days. Growth continued to improve slightly in France, remained stable in North America and moderated slightly in Italy, Iberia and Benelux, where the base effect is most pronounced.

For Q1, please note that in 2016, Easter falls in Q1, compared to Q2 in 2015. All else equal, this will negatively impact our gross margin compared to Q1 2015, by approximately 30 basis points. SG&A, excluding one-offs, in Q1 2016 is expected to increase slightly, compared to Q4 2015 in constant currency. This is in line with the normal seasonal trends.

The Adecco Group remains committed to leveraging the EVA approach. In this way, we will balance revenue growth, profitability and cash generation and create shareholder value in 2016 and long term.

And now, I would like to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Mr. Chris Gallagher, JPMorgan. Please go ahead, sir.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Good morning. A couple of questions. The first on the changes in your strategy around IT. How could that impact the potential costs of the program and also the rollout, both in Japan and globally? The next question then is just around any potential cost savings from Penna move with any overlap without hedge hedged given operated from 70 countries? And then finally, just on your gross margin, I look for 2016 at this point. Thank you.

Alain Dehaze
Chief Executive Officer

A

Good morning, Chris. I suggest that – I'll take the first two questions and then Hans will take the third one on the gross margin. So, coming back to the IT – and Hans also feel free to elaborate. Coming back to the IT, as we've said, we had planned first full-scale rollout in Japan later this year. But we also – part of this process was to do an assessment of the solutions before the deployment. And we did this in the months of January and February.

And the conclusion of this assessment was that we should not go ahead with the deployment and that we had to the change of approach. The current approach was mainly based on internal development, and I would say, was on-premise application. And with the evolution of the technology, we want to focus more on off-the-shelf, more modular, more cloud-based applications. And as a consequence of this, you see the write-off in Japan for an amount of €12 million, and at corporate level, an amount of €30 million. That's my answer on your first question.

Regarding Penna, first of all, I have to make you aware that this company is a listed company in UK, so we have to follow a strict governance before being allowed to elaborate on these acquisitions. Nevertheless, some color about that. Indeed, Penna is a well-reputed British company with three businesses: career outplacements, career developments and recruitment. So, if you remember what we have said in January when we met in Zurich for the Investor Day, we told you that, yeah, for the Professional Staffing and Solution, which was one of our six key priorities, we were considering buy-and-build acquisitions besides organic growth and that we had three criteria.

First, that any acquisition should accelerate our strategic development and broadening and diversifying our offerings. That's the case with Penna. Second is that the Adecco Group should be a better owner of this business by allowing and achieving revenue and cost synergies with our existing activities. And that's exactly what also Penna is offering. And last but not least, we said also that it should create value for our shareholders, delivering positive EVA within three years and this acquisition will also meet these criteria.

Hans Ploos van Amstel
Chief Financial Officer

A

Chris, Hans here. Maybe some – first, some additional color on the IT change. So, what that means, and therefore, there was the write-down is that we will not continue with the rollout of that approach in Japan or globally. As Alain has pointed out, we will make a change in approach to reflect how the IT environment is changing that by using more, as we say, cloud-based model of off-the-shelf available technologies instead of in-house development. And we believe that is a better approach going forward. It had this change on write-down, but we are much more comfortable with that approach going forward.

We had guided that we will make IT investments in 2016 behind our strategy. And as we have said, that was based on the plans from the past. We will keep that money set aside to see how we can speed up the approach with our new reports. So, we'll keep that investments for next year set aside. If we turn to the gross margin, following the Investor Day, we gave our through-the-cycle targets over the three-year period on revenue growth, margin development and cash flow. What I would like to give is some color on Q1, because I think that's relevant without providing an outlook for the year because that's not we're not doing, but on Q1, it's obviously important to know that Easter will have an impact. We think that impact is around 200 basis points. So, that will be held at the timing of Easter.

Secondly, in France, there's a little bit of mismatch in the first quarter because we get the complementary healthcare costs, which is in Q1. 10 basis points, but there will be other benefit in other areas coming in Q2. But in Q1, it's just the one quarter of this healthcare business with an overregulation results. And Q1 2015, we had a release of some reserves, which was around 10 basis points. So, the operating performance continues in Q1, but we just have those three elements which will impact the first quarter.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Okay, thank you. And just follow-up on that. And previously, you've mentioned about €20 million for the rollout in Japan, so you still think that you're going to spend that this year?

Hans Ploos van Amstel
Chief Financial Officer

A

What we are the moment looking what is the best approach over these cloud-based solutions, we just keep that money in the pocket, but we obviously call back that money in our pocket by not rolling out Japan. So, that money is in our pocket. We need to keep it now with the new direction, the right – yeah that we're investing in the right technologies we want to, but we parked the money for now, and our intent is with the better strategy to invest that money.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Thank you very much.

Operator: Next question comes from Toby Reeks, Morgan Stanley. Please go ahead.

Toby W. Reeks
Morgan Stanley & Co. International Plc

Q

Hi, there. I've got three as well. And just following up on the IT question. Could you give us an idea of how you think that affects the savings you guys were expecting to make going forwards from IT? I think it was – initially, it was going to be sort of happening around about now, but that got pushed out, and I guess they keep getting pushed out. But does it – does your new approach mean we won't be getting the savings, so we think that the savings will be more material?

Secondly on that one, will there be more write-offs? And to your knowledge, are your peers all doing on-premises IT solutions as well? And then my final question – sorry – is on, at the AGM, you're going to propose the cancellation of shares under the current buyback plan completed January 28. Are you going to propose a new one or an extension of the existing one? And what does that imply in terms of your capital allocation, please?

Alain Dehaze
Chief Executive Officer
A

Okay. I will come back to your questions regarding the IT. So, somehow when you read the words, modular, cloud-based and off-the-shelf application, this will give us two advantages. One, first advantage is to be faster because by somehow deploying individual modules in different countries, you can work more in parallel. Also by working together with external partners, you can somehow leverage the module you have developed. I think one example is the customer relationship management unit, then you can decide to do it in multi-country at the same time, because it is off-the-shelf application and you can leverage the deployment to a next-level partner.

That's about the speed of deployment. Second about the costs, it has been our experience and also somehow proven that it is always better when available to take off-the-shelf application also regarding the cost of deployment – the cost of development and the cost of deployment. So, I would say regarding the financials, it should go into the right direction rather than in the wrong direction.

Hans Ploos van Amstel
Chief Financial Officer
A

Just Toby to quickly continue on that. So, we are not continuing with the previous reports. And as Alain mentioned, we believe we have better reports going forward by these reports. This is also important to one element we discussed in the investor conference is to reinforce our cost leadership. There are just better IT head that help us move along cost to also integrate our work on the cost leadership without IT strategy. And we want to bring those two together, that's important.

If we look at the share buyback program, we completed that and we will follow with the same capital discipline principles the company always use. So, excess cash will be returned to the shareholder. We introduced the framework for that, and there is a small new nuance in the framework that we will not announce at the start of the year, but at the end of the year to keep the optionality of the cash flow we generate for what we discussed buy-and-build acquisitions. So, the only new nuance is that in the capital – is that we would announce it for those excess cash flow, we do a buyback at the end of the year, not at the start of the year.

Toby W. Reeks
Morgan Stanley & Co. International Plc
Q

Okay, thanks. Okay. And just going back on the technology side, just very quickly, do you think you are differentiating yourself from your peers by taking this off-the-shelf approach, because my feeling is that everyone is working off legacy in-house systems? Is that correct?

Hans Ploos van Amstel
Chief Financial Officer
A

I think what is important for us here, I think there are two different things. First is digital strategy where you obviously have one and this is about the IT infrastructure. What's important there that we reinforce our cost leadership and that, obviously, like any company, there are legacy systems that you have a good infrastructure built there, the billing with your customers, dada dada, that we just used the latest available technology, and it's just proven if you use modular approaches off-the-shelf that when you keep upgrading your IT infrastructure, it's just a lot more efficient than these off-the-shelf solutions. And just the world has moved on with that. So, we believe this is key for – at the whole cost leadership we want to reinforce and differentiate ourselves there.

Toby W. Reeks
Morgan Stanley & Co. International Plc
Q

Okay. Thanks very much, guys.

Operator: Next question comes from Denis Moreau, UBS. Please go ahead.

Denis Moreau
UBS Ltd. (Broker)

Q

Good morning, everybody. Denis Moreau, UBS. Two questions, please. The first is on the operational leverage. Actually, it seems that it has been a relatively modest both in France and in Benelux if we adjust for the one-off. So, I'd like to get your view on that, on this moderation in operational leverage and how we should read that for the coming quarter.

And secondly, on pricing, you have mentioned some pricing pressure in Switzerland. So, could you elaborate on that, perhaps on the segments that are most affected by that, and also give some color on how the competitive landscape is evolving there? And also, if you could give some details on what are the additional costs that you are putting in place to adapt the business to this development in Switzerland? Thank you.

Alain Dehaze
Chief Executive Officer

A

Thank you, Denis.

Hans Ploos van Amstel
Chief Financial Officer

A

So, I'll start with, Denis, the operating leverage. Indeed, if you look at the first glance, you see a 20 basis point improvement in margin, which ends Q4 on a very strong 5.5% EBITA margin, excluding the one-offs. The comparison base is a little complex at this time because Q4 of last year, there were some discrete benefits in the fourth quarter, which are not one-offs, but discrete benefits. And they were related to the normal year-end processes or things related to healthcare costs, social charges, the true-up of accruals as part of the year-end process. And those have, last year if you add them up across all the markets, a discrete benefit.

If you take those away, the operating leverage in Q4 was exactly in line with what we saw over the first three quarters. So, that's 40 basis point improvement if you take out with carry forward one-on-one in Q4. So, the reason why giving the details, we keep track of that to make sure that the operating disciplines remain into the countries, excluding all these discrete items. So, it's not to explain them away. It's just that we have a good underlying understanding what is happening to the costs there. So, the summary is 5.5% margin we're happy with. If we take the discrete benefits of last year out, we are providing the same operating leverage in the business in Q4 this year.

Alain Dehaze
Chief Executive Officer

A

And then on your second question, Denis, regarding Switzerland, it is clear that the country as such is suffering from the strong Swiss franc, and the strong Swiss franc has impact in certain industry sectors, mainly the industry or the exports manufacturing companies, somewhat also the tourism, but for sure, for the export. So, we have seen somehow the sales level worsening over the quarter. And if you see also our outlook, the combined figure for January and February in Switzerland was minus 9%. So, the situation in the south has clearly deteriorated.

Now, regarding your comment, yes, we have continued pricing pressure, and that's normal. In such conditions, everybody wants to save money, and the first one are our customers. Second, regarding our profitability, we have this mix effect when you are in the industry. It has also impact, if you are at the customer who are exporting less, needs less temporary staffing.

And then on your questions or sub-question regarding the past. Yes, we are spending some cost to adapt our business to the development of the market conditions. In such a market, as an example, you need much more commercial hunters than farmers. So, you must make sure that you increase your commercial activity and have the right profile for that. We have also – we are also in the process to adapt our organization to have the right large account delivery models. And this had also, I would say, impact on the cost but for a better future. Everything we are doing is to do for a better return going forward.

Denis Moreau
UBS Ltd. (Broker)

Q

Okay, that's very clear. Thank you.

Operator: Next question is from Alain Oberhuber, MainFirst. Please go ahead.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Good morning, gentlemen.

Alain Dehaze
Chief Executive Officer

A

Good morning.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

I have three questions. The first is regarding the guidance for 2016 on EBITA margin. Are you refraining from this 5.2% you mentioned last autumn? And the second question is regarding Lee Hecht Harrison. We've seen that you've showed good growth in Q4. Is this an indication that the economic environment deteriorates again? And the last question is regarding France for the current year. Is there any positive or negative impact from CICE or from the family allowances or from other issues, which is supported by the French government?

Alain Dehaze
Chief Executive Officer

A

Okay. Hans will start with the – to answer. The answer on your first question, Alain?

Hans Ploos van Amstel
Chief Financial Officer

A

In – yeah, thanks for the question. We have developed through-the-cycle targets which we shared during the Investor Day, and when we said we're focused on three elements. One is organic revenue growth, at least in line with the peer group, and we're pleased to report in Q4 that we're closing the gap of one and improving that trend. On the EBITDA margin, we gave a through-the-cycle margin guidance, and then we have the cash flow conversion which obviously is key.

We made a one-time guidance for 2016 on the back of the change of the margin guidance for 2015 at the end of Q3, but we will not guide on the margin for the year. That was just to reset the expectations as a follow-on from the revised outlook for 2015.

Alain Dehaze
Chief Executive Officer

A

Then on the LHH, Alain.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Yeah.

Alain Dehaze
Chief Executive Officer

A

And also some color about the development of the net revenues, indeed the Q4 net revenues were down 2%. This is mainly coming from a couple of countries and the first one being France. And indeed, as you see some kind of recovery in France and also the presidential election coming in, you will see less and less restructuring or major restructuring activities in France. And somehow, in all figures that's what we see. We saw that LHH – the activities of LHH in France went really down.

We see also some countries in deep recessions like Brazil or even a weak economy in Canada, where we had some negative impact on the talent development business. And this explained the figure of 2%. You would also see that going forward for January and February combined, we anticipate a 3% growth for LHH.

Then going to your first questions about France and first of all CICE, we and I don't expect any change regarding the treatment of CICE in 2016. So no change on this. The current president has said that going forward in 2017, he would think about transforming the tax credit in the social charge reduction, but this has not been confirmed. And in the meantime, we will have the election.

And the second, regarding the family allowance, what we had had and it has somehow been changed by the French government during the game, I would say, is that since the 1st of January we are entitled to pay a complementary health insurance to all our temps or at least the one having certain number of force, and this has an impact for France only of 40 basis point.

And originally, this measure would have been somehow compensated by a further reduction in the social charges. But unfortunately, they decided to delay a little bit this further cuts of social charges and this will kick in on the 1st of April. That was not the original plan, this has been changed.

So from the 1st of April, we will be the beneficiary of reduction charges for about 35 basis point. That I would say the regulatory environment for France, Alain.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Just a follow-on question regarding the 40 basis points negative from gross margin in Q1 in France, and then as of April, 35 increase again, so H1 will be no impact.

Alain Dehaze
Chief Executive Officer

A

First of all there is a three-month difference, Alain. And second, the one is 40 and the other one is 35.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Okay. Good. Thank you.

Alain Dehaze
Chief Executive Officer

A

Welcome.

Operator: Next question is from Laurent Brunelle, Exane BNP Paribas. Please go ahead.

Laurent Brunelle
Exane BNP Paribas

Q

Yes. Good morning. Laurent Brunelle, Exane BNP. I've got three follow-up questions please. Regarding your 2016 margin targets, is it fair to say that given that you have changed your IT investments, it will be possible to 2017, then we could potentially assume that the margin will be up and if you don't give any guidance.

So regarding France, do you have a sense that you are gradually closing the gap versus peers in term of organic sales growth. And what do you expect moving forward? And could you just clarify the situation on the French conclusion which is starting to pick up? And lastly, can you give some 2016 financial targets, I mean CapEx, indirect charges and so on, please? Thanks.

Alain Dehaze
Chief Executive Officer

A

Good. I suggest Hans will take the first one. Then I will elaborate on your question on France and regarding the guidance about the financial items 2016 outflow, we'll come back to that.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. So on the change of the approach in IT, it is fair that that will free up money because we're not investing behind that approach anymore. And we previously said there will be 10 basis point or around €20 million additional investment on IT. What we're saying at this stage is that we want to keep that investment to put it against the new approach, which we said is normal approach which we're developing because we're just have decided and completed the assessment. If we would not make the investment in 2016, we will tell you but you should assume in modeling the results that we keep that in IT investment.

Alain Dehaze
Chief Executive Officer

A

Then on France and about closing the gap. If we take the figures of the fourth quarter 2015, I again confirm that our company is the most profitable among the peer group. And even if we take into account this is 100 basis points of one-off, we are the most profitable company in the group and we have been able to grow by maintaining this pricing discipline and profitability target.

What you see also and I never comment on individual peers that what we see is that somehow we had now catch-up with one and that we have still one order in front of us that we do that, as always said, in a steady, structured way and in a profitable way. And I don't want to sacrifice subsidies for the sake of the top-line, so we need a sustainable profitable growth.

Regarding, more specifically the construction, we always said that it will be the last segment in France to recover because it's late cyclical. We knew, knowing the pipeline, the new building pipeline and forecast and so on that it would rebound this. So we are very pleased to see that the construction segment, which is the biggest segment in France for the Temporary Staffing impact is back to growth in high-single-digit. And according to our clients' comments, this gross will continue and increase in the second half of 2016.

Hans Ploos van Amstel
Chief Financial Officer

A

On financial guidance on the CapEx and also interest expenses, you can assume that will be similar to the levels of 2016.

Laurent Brunelle
Exane BNP Paribas

Q

Okay, great. Thank you very much.

Hans Ploos van Amstel
Chief Financial Officer

A

Thanks, Laurent.

Operator: Next question is from Josh Puddle, Berenberg Bank. Please go ahead.

Josh G. Puddle
Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. Hi, there. My first question is on the software write-offs. I was wondering if you haven't written-off those costs, what would the average remaining life of those been?

And then secondly on working capital, you have an increase in 2015, increase of the outflow to €170 million, and I was wondering at this stage what you're expecting for 2016? Thank you.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. Normally, we would depreciate the software depending on the EBITA at around five years. So that we now if you start the [curve] gross that would be five years. You saw that this year, we have working capital because the growth is in the back half. We've seen some increase in working capital for the DSO were stable at 54 days. So if our working capital or if you keep the receivables discipline, would be similar to our sales curve.

Josh G. Puddle
Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Can I just follow-up on the software write-offs, maybe to ask another way. If you hadn't written those off, what would the amortization have been on those costs in 2016?

Hans Ploos van Amstel
Chief Financial Officer

A

Because we would only – they would be going more in the back half of the year because the go-live, they would be in Q4 of the Japan. So it has a minor impact on this year. If your question would be do we see a big benefit there, not really, because it's more in the back half and you would follow that.

Josh G. Puddle
Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Okay. Thank you.

Operator: Next question is from Tom Sykes, Deutsche Bank. Please go ahead.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Yeah. Good morning, everybody. Can I ask about your capital allocation again on the IT and then just industrial for North America? So on the acquisition of Penna, you've just acquired a business that share price has doubled in the last six months. It's trading on 21 times earnings. You're sitting in an all-time PE relative low and Penna is in top countercyclical. Are you trying to signal something about the growth outlook in your core business? And is that really the best capital allocation that you could have done?

On the impairment of the IT, you're the largest HR services business in the world and you're struggling to develop your own software. Tech seems to becoming ever more important – is there just a transfer of value from the HR industry to the tech industry. And then on the industrial business in North America, do you think that will slow further from 5% growth, please?

Hans Ploos van Amstel
Chief Financial Officer

A

So I start maybe with the IT. I think it's a more efficient use of resource going forward, given it's a little bit of a question of vertical integration. The own development of software in today's world, we feel is less efficient than using what's available off-the-shelf and more modular. Because software development has a cost and it's something you then can only apply in one company and may take modular approaches than there is scale. And that's why we believe and we did that assessment is actually a much more efficient capital allocation for the shareholder and it will be more cost efficient on the return on the investment. That was one of the key criterias to make the tradeoff to make sure we come through on our cost leadership on all elements of the business.

On Penna, we can't comment on the multiple and we've given where we are in the process there, we can only provide certain comments. We are pleased with making this offer because it's a great business and has good financials and some good businesses which we can complement to the Adecco Group.

On North America and maybe get it – there's a lot of swings and roundabouts. If you look at our North American results in Q4, they were up 1% on top of 6% in Q4 of last year. We see and we made mention of that during last quarter, but the U.S. growth, after five strong periods of recovery is stable and we see a continuation of that stability into the fourth quarter with the January, February results. We have a strong margin. Our results are in the middle of the peer group. We recognize there are businesses going up and down, but if we take it altogether, we see that the business is stable. It's reflective of where the cycle is. And that's what we see and that has put us in the middle of the peer group, but with a very strong margin.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. Thank you. And are you able to just pick out the kind of the drag on the North American growth? And maybe just give the U.S. growth separately and if you can, for January, February as well.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. If you take Canada out – that's about a small percentage point on the whole North American business. So the Canada results is a good point it's dragging down the North American results because of what's happening in the oil and gas sector.

And if you correct for that, that will be around 1 point.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. And is Canada more or less of a drag, January, February than Q4?

Hans Ploos van Amstel
Chief Financial Officer

A

It's consistent from a drag. It's not – I think...

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Okay.

Hans Ploos van Amstel
Chief Financial Officer

A

So that was a continuous drag because of our exposure to that sector. So it's not deteriorated.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. Perfect. Thank you very much.

Operator: Next question is from Suhasini Varanasi, Goldman Sachs. Please go ahead.

Suhasini Varanasi
Goldman Sachs (India) Securities Pvt Ltd.

Q

Good morning, everyone. Thank you for taking my questions. Just a few if I may. I know you've mentioned that the combined January-February growth rate was 4% at the group level. I was wondering if you had seen any differences in the trends by month. Was January in particular stronger compared to February, or vice versa?

Second question was on CapEx. At the third quarter results, you gave the financial guidance where you said CapEx would be €90 million and you came out at the year end at €97 million. Can you just give a little bit color on where the extra investments went and are you worried about investments for 2016. I know you said we should look for similar levels but could you share your thoughts on that?

And lastly, on software. Given you're trying to switch to the cloud-based and modular approach, I would have thought that that would mean that you can spread out the costs more evenly, versus [indiscernible] on-premise software. So do you think that you don't need to use all the amount that you've set aside for the software investments for 2016? Thank you.

Hans Ploos van Amstel
Chief Financial Officer

A

So we start with Jan-Feb. We believe it's best that we haven't seen any particular things but it's good to look at January and February actually together, because you get to start-off in January. January alone is always in this business, a little bit an interesting moment to look at. It's that run rate buildup between Jan and Feb, and so we did not see anything particular which says that has the February see a slowdown. What we see across those months is that the growth of 4% was continuing. So that's the thing.

On the CapEx, all right that we were not that precise. You have to give it some range. CapEx is always a little hard to predict until the last penny. So we came out, indeed that the number you said in that similar levels that will be plus or minus €10 million because CapEx budgets, they are relatively low in our business but if you do a project, it's at that level. So that's something to take into account.

Suhasini Varanasi
Goldman Sachs (India) Securities Pvt Ltd.

Q

Of course. Okay. And on the software side?

Hans Ploos van Amstel
Chief Financial Officer

A

On the software...

Alain Dehaze
Chief Executive Officer

A

I can answer it. It's not really a different way to – let's say to spread the cost and talent. I think the two key advantages is that when you go modular and not buy a one-size-fit-all solution, you can be faster because then you can really do more parallel developments between countries, between business unit and so on, especially if you have a partner at your side. And so it's faster.

And there was previously the question regarding on development human resources to IT. The point is that we have our core competencies in the human resources solutions and not in the IT development. And by taking off-the-shelf solutions, you are tapping in the competencies of specialists that...

Suhasini Varanasi
Goldman Sachs (India) Securities Pvt Ltd.

Q

Of course.

Alain Dehaze
Chief Executive Officer

A

...we're not an IT development company.

Suhasini Varanasi
Goldman Sachs (India) Securities Pvt Ltd.
Q

Right. Of course.

Alain Dehaze
Chief Executive Officer
A

And so at the end, it is faster and for sure rather than developing in-house, it's cheaper.

Suhasini Varanasi
Goldman Sachs (India) Securities Pvt Ltd.
Q

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

Alain Dehaze
Chief Executive Officer
A

You're welcome.

Alain Dehaze
Chief Executive Officer
A

Let's take then the last question if any.

Operator: The last question for today is from Mr. Konrad Zomer, ABN. Please go ahead.

Konrad Zomer
ABN AMRO Bank NV (Broker)
Q

Hi. Good morning.

Alain Dehaze
Chief Executive Officer
A

Good morning.

Konrad Zomer
ABN AMRO Bank NV (Broker)
Q

A question on the operating margins in North America. Can you share with us what the gap is between the EBITA margin you generate in your professional staffing business and in your general staffing business, please? And if you expect the professional staffing business to outgrow the general staffing business going forward.

Hans Ploos van Amstel
Chief Financial Officer
A

Okay.

Konrad Zomer
ABN AMRO Bank NV (Broker)
Q

Well, my second question and last one as well is, is there any other capitalized software allocated to different countries that you might decide to write-down later in 2016 or was this the full amount?

Hans Ploos van Amstel
Chief Financial Officer

A

Okay. So, I'll start with the last question. On the capital software, we did a comprehensive assessment and the write-down is reflective of that and there's nothing more to come.

We are not disclosing the split in the U.S. between our margin but obviously, professional staffing is margin accretive because one of the key reasons to do it and there is a few other basis points of both the gross margin of general staffing. So it's a good business overall and has continued to provide good performance, as evident in the strong margin we recorded for the U.S. business.

Konrad Zomer
ABN AMRO Bank NV (Broker)

Q

Okay. And do you think that business will outgrow the general staffing business at some point given where we are in the cycle?

Hans Ploos van Amstel
Chief Financial Officer

A

Given the significant importance of our General Staffing, we are looking to grow both.

Konrad Zomer
ABN AMRO Bank NV (Broker)

Q

Okay. Thank you.

Alain Dehaze
Chief Executive Officer

Thank you very much. And have a good day and I think for some of you, we will have the pleasure to meet together in the next days or next week. Thank you for your presence.

Hans Ploos van Amstel
Chief Financial Officer

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.