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Adecco Group AG (ADEN.CH)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q3 results 2018 analysts conference call. I'm Mirona, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instruction] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Nicholas de la Grense, Head of Investor Relations; accompanied by Mr. Alain Dehaze, CEO, and Mr. Hans Ploos van Amstel, CFO of Adecco Group. Please go ahead, gentlemen.

Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

Thank you, and good morning and welcome to Adecco Group Q3 2018 results conference call. I'm joined today by Alain Dehaze, Group CEO; and Hans Ploos van Amtel, Group CFO. As usual, before we begin, please review the disclaimer on page 2 regarding any forward-looking statements in this presentation.

On slide 3, you'll see today's agenda. Alain will begin with the highlights of the quarter, Hans will follow with the review of the financial performance and a comment on the outlook for Q4. We'll then return to Alain with an update on GrowTogether which is a key element of Perform, Transform, Innovate agenda. And finally, we'll open the lines for Q&A. Alain, over to you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

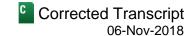
Thank you, Nick, and good morning, ladies and gentlemen. Welcome to our third quarter 2018 result investors call. I will start with the slide on the key highlights. Trading in the quarter was in line with what we described in September investor seminar. Revenue growth slowed to 2% driven by lower market growth in most European countries. And overall, we are pleased with the results in what is a challenging market environment.

We had many examples of success. In France, our largest business, we continue to outperform the markets, and we delivered 5% organic growth with a strong margin supported by operating discipline and price discipline. We also saw improved growth in Japan and the rest of the world where our focus on driving for profitable growth is showing results. And we had another strong quarter in permanent recruitment with 19% organic growth.

We also made excellent progress on GrowTogether, which is now scaling up and delivering tangible results. GrowTogether productivity savings offsets a significant part of the margin headwinds from [ph] CICE (00:02:50), from Germany and strategic investments. And the savings will continue to increase to Q4 and into 2019. You'll see the benefits coming true in the margins of the countries where GrowTogether is further developed, the U.S., UK, and France. We are very pleased with the underlying margin development, especially in light of the slowdown in top line growth. We recognized the importance of turning around Germany, which was a 20 bps drag on our margin year-on-year. Needless to say, fixing it is at the top of your agenda. And as we said at the investor seminar, it is taking us a bit longer.

Lastly, I would like to highlight the impact of [ph] four (00:03:43) recent acquisitions, which have a positive impact on the business mix and contributed to the overall gross margin increasing by 20 bps year-on-year. General

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Assembly and Vettery are high-value businesses in high growth markets. And we are very optimistic about the contribution they will make in the years to come.

And with this, I'll hand over to Hans for more insights on the financial performance.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain. We will now run through the financial performance in more detail, starting with our revenue growth. Revenue growth slowed in the third quarter to 2% organically and trading day-adjusted. The slowdown was in line with what we communicated at the investor seminar in September. It is clear that the European economy slowed over the summer period and into the fourth quarter. There's some one-off factors in there. For example, automotive was weak because of new regulations in Europe, but the slowdown was quite broad-based. So we keep watching it carefully.

That being said, we believe that we're in a period of positive stability. More that we're in the periods of positive stability. Looking at the individual regions, you can see that the slowdown was very much market driven. Our growth was ahead or in line with the peers in most regions with the exceptions being Germany and the Benelux. In our largest market fronts, growth was strong at 5%, extending our market leadership and confirming the strength of our commercial strategy.

If you take into account the CICE changes, you can see that the growth is coming through with a nice margin, confirming a strong cost and price discipline. In North America, UK, Ireland general staffing, revenues were stable. North America was flat. We are encouraged by the growth trends in October. The UK decline of 1% reflected generally soft market conditions. Remember also that last year, we benefited from new client wins delivering strong growth.

In this quarter, the 2% decline in Professional Staffing in North America, UK and Ireland was in line with the Q2 results. Our U.S. Retail business continued to perform well. The total results were held back by our IT Enterprise business, which is still being impacted by a couple of large client losses.

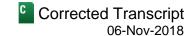
In Germany, our revenue growth underperformed in the slowing market. Professional Staffing and permanent recruiting delivered solid growth. In General Staffing, which is the largest business, the growth was negative. The market is softer with weakness in automotive and also some negatives from regulation changes. But as we discussed at the investor seminar, the larger part of the slowdown was driven by the merger of our Adecco and Tuja brands.

In the Benelux, growth slowed in both the Netherlands and Belgium due to softer market conditions and reduced demand at a few large clients. Therefore, we remain focused on diversifying the mix as we are too reliant on large customers in these markets.

Italy decelerated, in line with the market trend after eight quarters of double-digit growth. Iberia also slowed with the market trend. Japan had a great performance on both the top line and the bottom line. Lee Hecht Harrison, which is a countercyclical business, was down 4% in the guarter.

Our sales continue to outperform the peers and is gaining market share. We have a truly differentiated offer in career transition and this is resonating well with our customers, and it will become even stronger with General Assembly's workforce transformation capabilities. The need for reskilling and retooling is there.

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Turning to the EBITDA margin, down 40 basis points in total. In more detail, the reduction of the CICE tax credit from 7% to 6% had a 15 basis points negative impact. Our strategic investments in digital and IT had a 30 basis points impact. The German transformation also impacted the results by 20 basis points. Recall that we're making investments in Germany to strength our recently merged General Staffing brands, Adecco and Tuja.

We're making fundamental changes in our go-to-market strategy and these take time to become established. It's fair to say that these changes will take us longer than originally anticipated, as we already highlighted in September. Therefore, Germany will continue to impact the results in the short term. It is the right thing to do because it will strengthen the German business for the medium term and the long term, creating a strong number two in the market.

This leaves the 25 basis points positive margin improvement in the balance of the business, confirming our strong cost and price discipline and that the GrowTogether benefits are being delivered, particularly driving the margin in the U.S., the UK, and France.

Looking at the profitability at the country level. Continued strong profitability in France, product mix, price discipline, and productivity improvements helped to offset the investments and the reduction in CICE. The lowest CICE has a negative 60 basis points impact.

North America, UK, and Ireland General Staffing benefited from productivity gains from GrowTogether, which more than offset the digital investments. North America, UK, and Ireland Professional Staffing delivered a strong margin. The improvement in the underlying margin paid for the investments in Vettery keeping the overall margins stable.

The 210 basis point margin decline in Germany, Austria, Switzerland was driven by lower productivity, higher bench costs, and investments in the General Staffing business transformation in Germany.

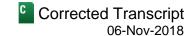
In Benelux and Nordics, the margin declined by 100 basis points impacted by client mix and negative operating leverage. In Italy, the improvement in the temporary staffing gross margin and strong growth improvement in recruiting resulted in a 40 basis point margin improvement.

In the rest of world, our strategy of focusing on client mix and quality of growth continues to deliver strong results with the [ph] EBITDA (00:11:20) margin improving by 30 basis points. [indiscernible] (00:11:24) maintains its strong margin leadership. The total Career Transition & Talent Development margin was impacted by the consolidation of General Assembly, which is still in an investment mode.

Let's now look at gross margin and SG&A, starting with gross margin. The reported gross margin is up 20 basis points. M&A had a positive impact of 30 basis points driven by Vettery and General Assembly [ph] which (00:11:54) are high value, high gross margin businesses. Currency had no impact this quarter. This leaves the organic gross margin down 10 basis points. Permanent recruiting had a positive 30 basis point impact. Career Transition had a negative 10 basis point impact. This leaves a 30 basis points reduction in the temp gross margin. CICE had a negative 15 basis point impact. The remaining that 15 basis points is driven by pricing and mix, which is similar to the first half results.

On SG&A, organic cost growth was 3%, slightly above sales and gross profit growth. If you look at the more precise and rounded numbers, around half of that comes from the organic strategic initiative investments. The German integration also impacted the productivity.

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Looking at the head count, the business did a very good job adjusting the cost to the lower revenue growth reality. Investments in acquired companies, General Assembly and Vettery, had a 5% impact on SG&A. It is important to look at our total conversion ratio, which both includes all the investments, which includes General Assembly and Vettery, and the German [ph] drag (00:13:22). The total conversion ratio continues to be very strong at 26.9%.

Turning to cash flow, the average cash conversion for Q3 was 78%. This is similar to the second quarter conversion. Days sales outstanding was 54 days versus 53 days last year and in Q2. A slight increase, but important to note that the quality of the receivables remains very high. We are very focused on the quality of our receivables.

Net debt-to-EBITDA, excluding one-offs, was 1.1 times at September 30, 2018, compared to 1.4 times at the end of June. We expect leverage to be at around 1 times at the end of the year as we continue to buy back stock in the fourth quarter.

Turning to the outlook, revenue growth in September and October combined was plus 1%, organically and trading days adjusted. This confirms the exit rate was below the Q3 growth rate. Remember that for the fourth quarter, we have a slightly tougher comparison base. In France, we get no CICE for the month of December 2018. This is the outcome of the transition from CICE to a new system of social security reductions in 2019. Not getting the December month was unexpected. It's a one-off impact. Next year, we get the full 12 months. On the group gross margin, the impact is about 25 basis points in Q4. This is on top of the continuing impact of the reduction of CICE from 7% to 6%, which has been effective since the start of this year. In Q4, we will deliver the balance of the targeted €50 million GrowTogether productivity savings for 2018.

Before I hand back to Alain, I think it would be useful to give a few comments on CICE for 2019. The French budget has now been published. Some of the details are still to be confirmed, but we have a pretty good idea of what the impact will be.

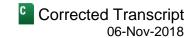
There are a lot of moving parts, but the key implications are: First, CICE will be transformed into a permanent reduction in social charges from January 1, 2019. The 6% CICE will be replaced by the 6% reduction in the employer's health insurance contributions. This is pretty much a one-for-one replacement of CICE.

In addition, there will be an extra subsidy for lower salaries, which starts from October 1, 2019, so from Q4 of next year. This is worth up to 4 percentage point reduction for employees earning the minimum wage and the reduction decreases to zero at 1.6 times the minimum wage. We cannot give the precise implications yet, because we still don't know how this will be allocated over the wage brackets. From an EBITDA perspective, the new social charge reductions should be a slight positive versus the current CICE once the additional subsidies kick in from October 2019. This leaves a small gap for the first three quarters because of the impact of the employee profit sharing. We're not talking about material amounts.

At the net income line, however, the new subsidies are less favorable than CICE. CICE was non-tax deductible. The new subsidies will be taxable. So, [ph] the fact that we have to (00:17:36) pay the 32% French tax rate on the value of the subsidies. Most of you already have this in your models. We will have to look at what measures can be taken to offset this impact. Price discipline and pricing will become even more important now that the net impact of the subsidies is reduced.

With that, I would like to hand back to Alain to talk about our strategic and operational progress.

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Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans, and indeed, now, I would like to talk a little bit more about GrowTogether, which is the key pillar of Perform, Transform and Innovate strategic agenda. With GrowTogether, we are transforming our core operation for the digital age to drive customer centricity, increase efficiency and create more differentiation in all solutions. It is already improving business performance and we clearly see that in the quarter with the 25 bps underlying margin improvement, despite the slowdown in sales.

GrowTogether [ph] touches (00:18:47) the entire value chain covering three core activities. First, sales or finding the clients, then recruiting or finding the candidates and filling the order, and finally, middle and back office going from [indiscernible] (00:19:04) capture to invoice, accounting and support functions. Specific initiatives are driving results already and we are only at the beginning of this journey.

I can give you some practical examples. The first one about the document digitization. We have taken initiatives in our French business and this initiative is about process automation – processing of more than 30 million paper documents. Also in the UK, in the UK, we have replaced multiple client relationship management system with a single salesforce.com based platform, allowing each consultant to spend one additional hour per day on client-facing activities.

My last example is coming from the chat bots. And the chat bots being rolled out in the U.S. and Europe enable an average engagement increase of 400% compared to e-mail, saving up to 20% of recruiters' time.

As we invest in GrowTogether and roll out new tools and capabilities, we are driving true differentiation for the candidate and the client, establishing a real competitive advantage. And the productivity enhancements are lowering our cost of [ph] services (00:20:32) with a target of reducing SG&A by €250 million by 2020. So GrowTogether is about driving productivity, creating differentiation, and improving the customer experience.

Now coming to the concluding messages, we have an exciting strategic agenda to Perform, and Transform, and Innovate. On Perform, we delivered a solid quarter in a slowing market. We recognize the importance of fixing Germany and even with Germany and all the investments we are making, we continue to deliver the best conversion ratio in the industry.

On the Transform agenda, we are delivering the first benefits in line with [ph] our (00:2:20) commitment. GrowTogether is scaling up and will continue to support productivity improvements in the quarters to come. We delivered the first €50 million in 2018, on the way to €250 million in 2020.

And with General Assembly and Vettery, we are driving exciting innovation in [ph] all (00:21:43) industry which is confirmed by the positive reaction of [ph] all (00:21:47) clients.

To finish, I would like to thank all of our worldwide colleagues for their commitment and engagement. I'm pleased to say that the positive environments that they help create every day has once again been recognized in the Great Place to Work survey where we ranked in the top five for the second year running and the third year in the top 10. And with this, I would kindly ask the operator to open the line for the questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question from the phone comes from the line of Anvesh Agrawal with Morgan Stanley. Please go ahead.

Anvesh Agrawal

Analyst, Morgan Stanley & Co. International Plc

Hi. Good morning. I got three questions. The first, can you just give a bit more clarity on the organic growth development for the quarter? I mean, September is the biggest month and you did 1% versus July and August 2%, but still under Q3 [indiscernible] (00:23:08). So, I mean, something doesn't add up here. And then second, on the outperformance in France which is substantial versus peers. Is there any particular contract that is driving that or do you attribute it entirely to your initiatives therefore, it should continue? And finally, you flagged some large client losses in Benelux and North America. I mean, what drove it? Did you lose it to your peers on price or they were insourced or they were won by new tech startups? Thank you.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

I will start. So, what we saw and I think that that's the most important point that it's in line with what we discussed at the investor seminar. After this summer, we didn't see the growth picking up. So, when we enter September and we saw that in October, you see that plus 1% trading day adjusted. Now, there are some trading days impact in September versus October which have an impact. But in total, I think the key message to walk away from that we saw in July, August, still the growth a little lower than we saw in Q2. [ph] There (00:24:18) was some growth September, October, we see what we call that positive stability of plus 1%. And you have seen in the markets we performed very strongly in France, but there, you saw also the market slowing. You saw that in Southern Europe and that is I think the key message that when we enter Q4, we see a plus 1% and that we call that positive stability.

Alain Dehaze

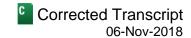
Chief Executive Officer, Adecco Group AG

Good. Then, on France and outperformance, yeah, we are very pleased with this outperformance. It is also clear that in France, we have our strategy at work. We have – remember, we put the two companies together. Adia and Adecco, we put the segmentation in place. The pricing strategy and pricing discipline, but also the perm. So, we are really gaining market share in a very disciplined way. You can also look at [ph] all (00:25:18) profitability. We have the strongest profitability among the peers.

And it is not only in job of temporary staffing where we have a broad-based growth, it's also in the perm. In the perm, we had 30% growth in Q2 in France. So, no particular reason regarding a contract. It's really broad based and in all the businesses.

Then about your third question regarding U.S. and the Benelux large client losses [indiscernible] (00:25:56). I think it's a little bit different. In the U.S., the volume was impacted by some reduction at a few large clients and both in the Benelux and particularly in the Netherlands, but also in the U.S., we have a portfolio – a big portfolio, is mainly driven by large customers.

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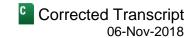
So as soon as some of them are delaying [ph] or (00:26:24) their order and so on, you have impact. And in the U.S., we have some delays of the onboarding of some new clients, but the growth improved the quarter and we expect to be a positive again in Q4.

The Netherlands, it's a little bit of the same. Change of, let's say, delay of ordering at this big customer, but no particular, let's say, big customer losses due to pricing reason. Absolutely not.

Anvesh Agrawal Analyst, Morgan Stanley & Co. International Plc	Q
Okay. So just to be clear, your October growth on underlying business was in line with September at 1%	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Yes.	
Anvesh Agrawal Analyst, Morgan Stanley & Co. International Plc	Q
you've not seen any sequential slowdown? Fine.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
No. No.	
Anvesh Agrawal Analyst, Morgan Stanley & Co. International Plc	Q
That's clear. Thank you. Okay. Thank you.	
Operator: The next question from the floor comes from Paul Sullivan with Barclays. Please go ahead, sir.	
Paul Sullivan Analyst, Barclays Capital Securities Ltd.	Q
Good morning, everybody. A few for me.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Good morning.	
Paul Sullivan Analyst, Barclays Capital Securities Ltd.	Q

Firstly, on just gross margin, there's lots of moving parts as usual, but seems to be a few more in the fourth quarter, could you give us some help in terms of the bridge from Q3 to Q4 or year on year, however you want to do that?

And then, similarly, in terms of SG&A in Q4, will you – are you prepared to give us some firm guidance on that, and what proportion of the €50 million savings has been delivered to-date?



And then, finally, any thoughts on labor reform in Italy and any potential impact from that? Thank you.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

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Yes. Good questions, four, because you need a lot of moving parts moving around. So, first, I think what's important, what we discussed, we have what I call that white month of no CICE in December, and that will have a negative impact of 25 basis points negatively for the group in Q4. On top of that, we have the recurring impact from the [ph] seven to the six (00:28:18), which for the first three quarters was around 15 basis points negative. So, the two together are, I would say, a small 40 basis points because December is a little bit – you could say that you [ph] can double count (00:28:43), but December is always a little smaller. But I would say a small 40 bps from CICE in France at the group level.

M&A will be similar to Q3, plus 30 basis points. So, that will be a positive. You get a help from the bank holidays in Q4 by 10 basis points, and then we have some negative [ph] accrual (00:29:04) impact last year in Q4, which we don't think we have in this Q4. That's another 10-plus. Forex, we can't do an outlook, but I would assume you could keep neutral, and then you can add the usual dynamics which I have less visibility on, which would be how our perm business is developing, what will happen on the Career transition. And I think on the temporary pricing and mix, I think the run rate we're seeing would be a fair assumption to make. So that's on gross margin.

On SG&A, a couple of points. We will continue to invest in our digital transformation with GrowTogether and New Ventures. There's a small [ph] re-phasing (00:29:55) between Q3 and Q4, because we were a little bit more positive in this quarter versus the guidance. We said that we had 40 basis points strategic investments this quarter and 30 basis points in Q4. I would put 40 basis points in Q4 for the strategic investments.

Germany will continue to weigh on the productivity in Q4, that's still [indiscernible] (00:30:19). The good news is that GrowTogether savings are coming and that will help. So if you add that all up, that I would expect Q4 SG&A to be up 5% to 6%, including the M&A, Vettery and GA, which is around 5 basis points. So we expect year-on-year – and I'm talking year-on-year, I'm not talking sequentially – that organic SG&A will be stable to plus 1%.

Paul Sullivan

Analyst, Barclays Capital Securities Ltd.



Okay. Now on Italy, I do assume you know the detail of this new regulation, the reintroduction of the reason for use of temporary work contract, the reduction of maximum length from 36 to 24 months, and the quantitative limitation to 30% of your labor force as temporary workers. Now, this dignity decree is de facto in application since yesterday, because it was 1st November but as you know, 1st November is a holiday in Italy. So, I was personally in Italy some weeks ago. I met customers and there is still unclarity about the way customers will react towards this dignity decree. I can only give two comments. First, especially in case of unclarity like today, customers are looking for flexible solutions like the one we are proposing.

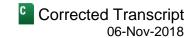
Second, we have different type of contract and we have also in Italy the contract of temporary staffing with indefinite duration. So, the same we have also now in France, for example. And I can imagine that there will be a way, let's say, to react to this dignity decree by [ph] adopting (00:32:23) the type of contract we are proposing to our customers. So, all in all, [ph] confident. (00:32:29)

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG



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One question you asked us also [ph] that I didn't add to (00:32:35) the first point is GrowTogether. You can't be [indiscernible] (00:32:41). The good news in Q3, we're really delivering the results and this positive momentum we can talk. So, I would say 45%-55% between Q3, Q4, but not weighing a lot in Q4. I think one of the positive surprises we [ph] had in Q3 (00:32:55) is that the GrowTogether savings are really starting to kick in which is good news.

Paul Sullivan

Analyst, Barclays Capital Securities Ltd.

Q

That's fantastic. Thank you very much.

Operator: The next question comes from the line of Alain Oberhuber with MainFirst. Please go ahead.

Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

Hello, Alain and Hans. [ph] It's (00:33:14) Alain Oberhuber, MainFirst. Could you give us a little bit insight regarding the tax rate? I think it's pretty difficult for you to give us an indication, but it will clearly help particularly in the light of the new subsidies in France.

And then, just regarding September, October, could you give us a hint which markets performed better and which least?

And my last question is regarding the auto manufacturing sector. When do you think we could see the bottom of that sector in Europe?

Hans Ploos van Amstel

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Chief Financial Officer, Adecco Group AG

I'll start with the tax rate. This year, our tax rate will be at around that 27%. As you rightly point out, the CICE change to the social security reduction will have an impact on the taxes, because we didn't need to pay taxes on CICE whereas the subsidies will be taxed. We are [ph] not (00:34:24) giving − we're giving normally at the end of Q4 our update on next year's tax rate, but what I can give you which is easy is CICE was around €200 million and that will be taxed at around 32% and we give the real tax rate because of business mix at the end of Q4, but you can calculate that €200 million times 32% will have a relevant effect on the tax rate for next year.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

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Regarding the question on the market, Alain, as you know, we don't give – we don't provide an exit rate by countries and so on. What I can – just what I can tell you is that basically when we look at Americas, the U.S. and we look at Japan, the trend is consistent with the previous quarters. No big change. The slowing growth as mentioned during the Investor Seminar was coming from Europe. And that's what we see [ph] being in (00:35:35) and especially in the Southern European countries: France, Spain, and Italy, where you have seen also some revision of the GDP figures. This is also confirmed by our figures.

And then, sorry, I didn't catch your – the last question about manufacturing. Can you please repeat your question [indiscernible] (00:36:00)?

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<u> </u>	
Alain-Sebastian Oberhuber Analyst, MainFirst Schweiz AG	Q
Sure. [ph] (00:36:01) Just regarding the development of the auto man Could you give us maybe some or your best guess for when we could manufacturing sector, particularly in Europe and specifically in Germa	see this downturn in the auto
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Yes.	
Alain-Sebastian Oberhuber Analyst, MainFirst Schweiz AG	Q
Do you have any view already there?	
Alain Dehaze Chief Executive Officer, Adecco Group AG	А
Yes. I think there are different elements in the slowdown of the auto melinked to this new regulation regarding the control of the pollution and manufactured before being entered in the market has to go into a test this new regulation is really blocking, let's say, the entering of this new	that every new car having been center to test the emission. And this is – car into the market.
And so, you have – especially in Germany, you have huge parking wit to be controlled before putting – being putting on the market. So manuwe see also that there is a slowdown which is broad based in the man	ufacturing [ph] O2 (00:37:33) is one point but
Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG	A
Yeah. With that last point, I think what's important to reiterate is that w plate (00: 37:52) but it's not like we see in Q4 that that will give us	re see that positive stability, automotive [ph]
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
A new dynamic.	
Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG	A
a positive. So that I think is the important [ph] dimension (00:38:03).	
Alain-Sebastian Oberhuber Analyst, MainFirst Schweiz AG	Q

Operator: The next question comes from the line of Chirag Vadhia with HSBC. Please go ahead.

Thank you.

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Chirag Vadhia

Analyst, HSBC Bank Plc

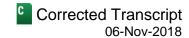
Good morning. Thanks for taking my questions. I've just got three. What is the headwind from temp to perm conversion on volumes?

Secondly, how much growth you need in the SME segment to put the U.S. back into positive volume growth territory? And within this, what is the gross margin and conversion margin difference between the large account and SMEs and why did you not move to SME focus earlier, or if you did, why has that not particularly worked, or? And finally, are you comfortable with the cost savings run rate and you think you can – if you can sustain this? Thank you.

Alain Dehaze Chief Executive Officer, Adecco Group AG Sorry, your fourth question	A
Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG	A
It's on the cost, maybe I'll [indiscernible] (00:38:54)	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Yes.	
Chirag Vadhia Analyst, HSBC Bank Plc	Q
So, yes. It's just – if you are comfortable with the cost savings run r be sustainable?	ate and if you think this [ph] could (00:38:59)
Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG	A
Yes.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Okay.	
Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG	A

Yes. Okay. Maybe we start there and then come to the SME and then, and I will give a little bit on the temp to perm [ph] and the whole (00:39:09). So we're very pleased with the cost progress we make into the quarter. We have with that revenue, so that shows that our people have a good grip on the cost and that is important. The second point into the quarter which is important, that the first benefits of GrowTogether are kicking in. This is pretty much driving also that underlying 25 basis points improvement in the operating leverage whereas we firstly had the low level of growth whereas we are making adjustments into the quarter as we still have some markets where we need to adjust. So, we believe that's sustainable because the GrowTogether benefits are driven from

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our initiative. We know everywhere where we're bringing GrowTogether to life both from the new perform methodology, as well as the systems and the new technology we're bringing, so that should put us on track also on 2019 to deliver [indiscernible] (00:40:08) GrowTogether savings.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

A

On the SME, about the U.S., we have to separate the analysis according to General Staffing and then Professional Staffing. In the General Staffing in the brand Adecco, you know that we have a big – our portfolio is mainly large accounts and I already [ph] commented (00:40:33) that. And yes, we are doing some efforts to develop [indiscernible] (00:40:39) SME portfolio, but as you know, it takes time. It takes time to gain these customers and also, it takes time to be able to compensate the large customers with many small customers. So, it takes time. Then, in the Professional Staffing, in fact, we have an excellent performance in all the, what we call, the retail business. The [indiscernible] (00:41:05) they are performing very well, but we have we have lost some large accounts in Modis IT where there, we have, in the enterprise business, we have large account and we have lost some of them, which is giving this picture. But again, on the retail side, we are very pleased. We are also very pleased with the performance of the Professional Recruitment in the Professional Staffing, strong double digits which is also typical of the maturity of the cycle, but very pleased with that too.

Chirag Vadhia

Analyst, HSBC Bank Plc

Thank you. And sorry, what is the gross margin and conversion margin difference between the large accounts and the smaller SME ones?

Hans Ploos van Amstel

А

Chief Financial Officer, Adecco Group AG

I think what is important, we're not going to give too precise because that disclosed a little bit also our pricing is what is good to know I think on the whole segmentation, wherever we have a more balanced mix between small and medium, that is really margin accretive and also from a growth point of view is driving our market share. I think markets like Spain, Italy, France are good examples where we have a good mix between small and medium and lots and on site. So, it's definitely margin accretive so that it is it has a better pricing and that's with the cost to serve is improving the margin.

You could ask why didn't we did that before in the U.S., I think what's great is that in the U.S., our small and medium is less than 15% of the business whereas for the group it's 35%. So, it will help those drive profitable growth in the U.S. And if you look this quarter, the profitability in General Staffing, the [ph] Europe (00:42:56) region was up at 30 basis points to our margin structure. We need to drive more growth in October. We see a little bit positive momentum. So we're very positive that through that segmentation, we will improve our market share and the profitability.

Chirag Vadhia

Analyst, HSBC Bank Plc

Thank you.

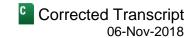
Alain Dehaze

Chief Executive Officer, Adecco Group AG

 \nearrow

Okay. Next.

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Operator: The next question comes from Simona Sarli from Bank of America. Please go ahead.

Simona Sarli

Equity Research Analyst, Bank of America Merrill Lynch

Good morning, gentlemen. A couple of question from my side, one is a follow-up on the GrowTogether. So if I understand correctly as of Q3, you have already achieved the €40 million to €45 million of the total €50 million. So the question is what might potentially drive [ph] upbeats (00:43:41) in Q4 to your total savings of €50 million.

And the second one is on Germany, so if you could please provide an update on where you stand with the reorganization of Tuja in General Staffing, so what are still the next step for you and how much of the sequential deceleration was purely related to auto? Thanks.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Yeah.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Maybe I'll start clarifying one thing. I apologize if that didn't come out clear. When I said €45 million, €55 million, I was referring to the percentage split of the €50 million. So a little less than half of the €50 million got delivered in Q3 and a little over half of the €50 million will be delivered in Q4, so just to clarify that.

And that confirms that there is – that the programs which we have put in place are starting to work and are delivering the results. On the [indiscernible] (00:44:40) of auto, we should not overplay that. That wasn't something which played into the quarter, but it's important to endorse that we saw in September, October this plus 1% and that we saw a broad based slowdown. So we're not expecting that the automotive impact into quarter [indiscernible] (00:45:01) by the material difference or change when we go into Q4.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Now regarding Germany, Simona, first of all, it has to be noted that not all the German business is challenged, so as I've said earlier, we have a solid growth in Professional Staffing. We have also a strong – solid growth in perm, but that's where the transformation is taking place at the General Staffing where we put the two staffing brands, Adecco and Tuja, together.

So the formal merger had started since the 1st of May. So Q3 was the first full quarter in which we have the two combined organization. Now where are we? We have consolidated branches and the support functions. We are implementing the so-called segmentation, so putting in place two different organizations, one for the Onsite and the other one for the branches. And you know that in this process, you have to carve out from the branches the Onsite business and putting it in a dedicated organization.

And then on the retail organization, the retail network, we are putting in place what the so-called CCPM, which is all customer and candidate performance management, which is our commercial system, which is pushing the organization to increase their visits where we are measuring the number of visits, the efficiency and the intensity of the visit, which is a major cultural change. And we are putting there also a new front office system for the two combined organization.

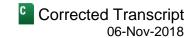
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So yes, it is like we said in September, it is taking time. It is also – it will take longer than we anticipated. But on the other side, it is very important to drive this transformation and build the strong number two we want to have on the German market. So convinced, it is absolutely the

right thing to do. We know the recipe because we have already applied the recipe in other countries remember France, but also Switzerland, Norway, Australia. We are applying there the recipe which has proven its results. Simona Sarli Equity Research Analyst, Bank of America Merrill Lynch Thank you. **Operator:** The next question from the phone comes from Michael Foeth from Vontobel. Please go ahead, sir. Michael Foeth Analyst, Vontobel Yes. Hi. Good morning. I have one question left regarding the strengths in your perm business, the 19% increase. Can you can you say how much of that strength was market driven and how much relates to market share gains on your side, maybe differentiating France, North American, and UK a little bit? And then how sustainable do you think the growth in perm is i.e. where do you think are we standing in that perm recruitment cycle? Thank you. Alain Dehaze Chief Executive Officer, Adecco Group AG Yes. Indeed, we had 19% growth in this quarter following three quarters at 18%. I would say that growth is broadbased between the [indiscernible] (00:48:35) and/or dedicated brands, the Professional Recruitment brand boost strong growth in both businesses. Geographically, strong growth in the U.S., double digit in UK. You have heard 30% in France but also Italy, Spain. So, it is really strong broad-based. Michael Foeth Analyst, Vontobel And any – is the market growing at the same pace or are you gaining substantial market share? Alain Dehaze Chief Executive Officer, Adecco Group AG When we benchmark our figures, you will see it also when we benchmark our figures against the typical players in this market – the pure players, we are gaining market share. Michael Foeth Analyst, Vontobel Okay. Thank you. Alain Dehaze Chief Executive Officer, Adecco Group AG You're welcome.

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Operator: The next question from the phone comes from the line of Hans Pluijgers with Kepler Cheuvreux. Please go ahead.

Hans Pluijgers

Head of Research Marketing & Head of Benelux Equity Research, Kepler Cheuvreux SA (Netherlands)

Yes. Good morning, gentlemen. A few questions from my side. One follow-up on Germany. Of course, you already gave some – let's say some indication how everything is progressing. But how long do you expect to see that negative impact will continue? I assume also Q4 would – how far maybe into next year, we should to calculate with a slight negative impact from Germany?

And secondly, looking at the U.S., could you give some feeling how let's say there was a – a breakdown was between volumes and price. And how do you see let's say the average contract period per temp developing, could you give some feeling on that?

And then on Q4 of 2017, could you give maybe some feeling of how that, let's say, the development the growth trends through the quarter? Was December, let's say, the strongest months or could you give some feeling on how the trend was through Q4 of 2017?

And then lastly on the one-offs, clearly somewhat lower than last quarter. You have indicated let's say that would be about €65 million – €50 million to €65 million for the full year previously. Is there anything changed in that? Could you give some guidance for the one-offs for this year?

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Okay. Good. Germany [ph] along (00:51:00), I will repeat what I have said during the investor seminar in London. A little bit more than one month ago. It will take time and what I said in London is that we were anticipating around one year of process. And I can only confirm what I have said in September, so one year from there.

Now on the U.S., yes, there is some wage inflation depending on blue collar, white collar; around 1% to 3% for blue collar, 2% to 4% for white collar. This is what we see today into wage inflation. So it means that in some business, we have a volume which is negative.

The average contract periods, let's say this is very linked to the type of business we are in. It's logistics. What is for us more important at this stage is to look how many customers we are winning and especially, how the ramp up or the so-called peak is going on in this fourth quarter. And there is a good traction on the ramp up right now in the U.S.

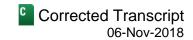
Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

And on your other two questions, so if you look at Q4 last year, we said we need to be mindful that we're having stronger comparison base in Q4. If you look at how the growth developed last year over the quarter, I wouldn't read anything specifically into it. December was a little bit strong, but also had the trading days impact, that those two is always, you cannot look at them [indiscernible] (00:52:56). Because if you have less trading days, it can be [indiscernible] (00:52:59). So I wouldn't read anything, we have just a strong quarter in Q4 of last year on the growth.



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And restructuring so far indeed has been lower than we guided to in our Capital Market Day of 2017 where we set the needle on €200 million to execute the whole GrowTogether initiative. It's hard to give forward-looking guidance specifically on the one-offs and potential reorganization cost, but we will continuously focusing on strengthening the productivity and we'll use that money when we need to execute on our GrowTogether program.

Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Okay. Thank you.	
Hans Pluijgers	\bigcirc
Head of Research Marketing & Head of Benelux Equity Research, Kepler Cheuvreux SA (Netherlands) Okay. Thanks.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	Α
Next. We have to speed up.	
Operator: The next question comes from Tom Sykes with Deutsche Bank. Please go ahead.	
Tom Sykes Analyst, Deutsche Bank AG	Q
Yeah. Good morning everybody.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Good morning, Tom.	
Tom Sykes Analyst, Deutsche Bank AG	Q
Good morning. Just quickly on – so on General Assembly, it looks like you're about mid 20s in revenue and	

Good morning. Just quickly on – so on General Assembly, it looks like you're about mid 20s in revenue and probably about high single-digit loss in Q3. Would you maybe just be at a flash out what your expectations are for General Assembly and whether you're putting any more cost in or taking it out whether the losses would decline?

In terms of the cost base, sorry, just to be clear on what you were saying for Q4, did you say total costs up 5% to 6% and organically up about 1%? And given that your temp gross profit now looks like it's probably organically flat to slightly declining, are you looking at any more – slightly more substantial cost savings across the group that might occur in Q1, Q2?

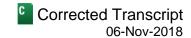
And then just on Onsite, could you maybe if possible be able to give us a clue as to how fast Onsite is growing relative to the rest of the business please.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

I start maybe with – General Assembly is running in line with the plan and we will deliver on the investment thesis we set. It's good to see in the quarter is that General Assembly is deriving the right level of growth we were looking for. So we're very pleased with the growth, we've also already having some good momentum with the

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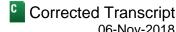


cross-selling which some of – all the customers, which is helping some of the growth and the investments we're making are in line with what we agreed to when we bought the business.

On Q4, to clarify, your conclusion is right. The total SG&A will go up 5% to 6%, which includes General Assembly and Vettery, which accounts for around 5 percentage points, which gets you to this conclusion of the 1% organically.

And on the temp gross margin, we see what we have been seeing so it's [ph] not a (00:56:05) change. In CICE, we explained indeed about the underlying pricing trend side at around that 15 bps. Some of that is in Onsite so we see modest growth because recall we are at this positive stability. There's not in the quarter a high level call out on growth of the Onsite.

Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Yeah. And on the Onsite, just to add this, yes, we have a double-digit growth on Onsite and this is the best performing segment today.	
Tom Sykes Analyst, Deutsche Bank AG	Q
Okay. Sorry, but just	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
And looking at the time, I see that there is still two people in the queue.	
Tom Sykes Analyst, Deutsche Bank AG	Q
No problem. I'll catch up with Nick. Thank you.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Yes, if you could offline, catch up with	
Tom Sykes Analyst, Deutsche Bank AG	Q
No worries, it's fine. [indiscernible] (00:56:50). Thank you.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Thank you.	
Operator: The next question comes from Matthew Lloyd, HSBC. Please go ahead.	
Matthew Lloyd Analyst, HSBC Bank Plc	Q

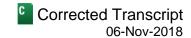


Q3 2018 Earnings Call 06-Nov-2018 Good morning, gentlemen. I'll try to be as quick as possible, and apologies to Tom for cutting him off. Alain Dehaze Chief Executive Officer, Adecco Group AG I'm sorry. Matthew Lloyd Analyst, HSBC Bank Plc It's all right. Very quickly. I've asked this question to about eight to nine people in the staffing industry. I get very different responses, so some people get emotional, some people are slightly concerned. Is there an issue at the moment with large account and getting the right fill rate? And therefore, your - because you're getting volume declines but some wage rate inflation which is perhaps less than one would expect given the demographic profile of the people who are placing. Have you got a problem with fill rates and do you think there's one in the industry causing a question about large account? Hans Ploos van Amstel Chief Financial Officer, Adecco Group AG Yeah. I maybe give an answer to that. I'm happy you follow our business closely because fill rate is a very important statistic for us not only with large clients with - and I think it's an opportunity for us with new technology and this where I think we can really win with the locals. Because we see like in France with our new candidate portals, we can attract better candidates and fill the order faster. So, this is I think one of the opportunities why I think we will be able to drive through growth that is – this is not a new issue always. If you look at the fill rate of the industry and I've been a retailer, I always ask this question and I think through technology. We do it already with people on events. We do it with a new the candidate portals. So, I think it's an opportunity and it will – the people who really leverage technology will be coupled with talking to the people. It's an opportunity, but it's not a new phenomenon. I think people will probably that's why you get inconclusive answers, give you many stories but it's a huge opportunity for us. Matthew Lloyd Analyst, HSBC Bank Plc Okay. I'm conscious of time. So, I'll say thank you very much. Alain Dehaze Chief Executive Officer, Adecco Group AG Thank you, Matthew. Operator: The last question comes from the line of Marco Strittmatter with Zürcher Kantonalbank. Please go ahead.

Yes. Thank you. Hello. Also just a quick one, are you sticking to your €200 million one-offs in total that you were talking about on the Capital Market Day last year? So is this still valid, the total restructuring charges of €200 million?

Marco Strittmatter Analyst, Zürcher Kantonalbank

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And then on the Capital Market Day 2018, you also mentioned the possibility of a possible additional cost in connection with the slower growth you are experiencing, is this still something you are worried about or something we should be worried about? Thanks.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

А

Yeah. First, yes, the €200 million of the reorganization restructuring cost will go together for the coming years we keep. So there's no change in the guidance. Where we are happy with the quarter and that's better than the investment seminar in London is that we've done a very good job of driving the productivity while the revenue slowed.

I think this is why we have a little bit more positive earnings than what we highlighted there. So our people have done very strong job on the cost discipline and secondly, the GrowTogether savings, [ph] recall (01:00:16) over the first half, we talk that we were in an investment phase. We're putting in systems. We were going to the learning that Q3 have more benefits from GrowTogether, which is also posted. So I think we're given a more positive message now than we did in September and the IR Day with that the cost discipline is there and that GrowTogether is driving that to the next level. I think that is the positive of the quarter.

Marco Strittmatter

Analyst, Zürcher Kantonalbank

Yes. Thank you.



Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you very much to all of you. Before I give back to the floor to you to Nick, thank you for your great questions. We'll meet some of you during the road show and if you have still open questions, don't hesitate to reach out to Nick offline. Happy to answer your questions.

Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

Yeah. Absolutely. So, thanks everyone for joining us. The key forum full-year results will be on the 28th of February. We'll see some of you before then. But if not, have a very good Q4 and we'll speak to you in the new year. Thank you. Bye.

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.

Adecco Group AG (ADEN.CH) Q3 2018 Earnings Call

Corrected Transcript
06-Nov-2018

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