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# AHEXF.PK - Q2 2010 Adecco SA Earnings Conference Call

**Event Date/Time: Aug. 11. 2010 / 9:00AM GMT**





THOMSON REUTERS

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## PRESENTATION

**Operator**

Good morning or good afternoon, I'm Stephanie, the Chorus Call operator for this conference.

Welcome to the Adecco Q2 2010 results analysts and investors conference call. Please note that for the duration of the presentation, all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator Instructions). This call must not be recorded for publication or broadcast.

At this time, I would like to turn the conference over to Mrs. Karen Selfors, Head of Investor Relations; accompanied by Mr. Patrick De Maeseneire, CEO of the Group; and Mr. Dominik de Daniel, CFO of the Group. Please go ahead.

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**Karen Selfors** - *Adecco SA - Head of IR*

Good morning, ladies and gentlemen. I am pleased to welcome you to Adecco's second quarter 2010 results conference call. Today, Patrick De Maeseneire, Group CEO; and Dominik de Daniel, Group CFO, will lead you through the presentation, followed by a Q&A session.

Please now have a brief look at the forward-looking statement in this presentation.

Let me give you a quick overview of today's agenda. Patrick will present the operational highlights of the second quarter to you. Then Dominik will review the financial performance. Patrick will then reiterate our strategic priorities and give you an outlook on our business, before we open the lines for questions.

With that, Patrick, the floor is yours.

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Thank you, Karen. Good morning, ladies and gentlemen. Welcome to our Q2 conference call.

Let me start with the highlights of the second quarter. Business conditions in the second quarter of 2010 improved significantly, and we delivered strong growth in the majority of the markets we operate in. We achieved 13% organic revenue growth, driven by our main markets, France and North America. But also, Germany, Italy, Nordics and the emerging markets delivered strong double-digit revenue growth.

Demand was particularly strong in the industrial segment, but also our professional staffing business returned to growth in the second quarter.

Our gross margin in Q2 was 17.8%. We continue to focus on disciplined pricing, and also benefited from the increased exposure to professional staffing.

Our measures to reduce the cost base in the downturn, coupled with strict pricing and top line growth, led to a strong double-digit increase of our EBITA in Q2. Before integration costs, the EBITA was up 46% on an adjusted and organic basis. And our margin was 3.8%, up 100 basis points, compared to the adjusted prior year's Q2 EBITA margin of 2.8%.

Revenues in June were up approximately 16%, organically and adjusted for business days. To date, we see no signs of a slowdown of our business in the third quarter, and remain confident of strong revenue development near term. Indeed, our revenue growth in July developed in line with the one in June.

We go now through the key numbers in more detail. As you know, the new French business tax law is effective as of January 2010. And since this is the treatment going forward, we opted to adjust 2009 for this impact. We also excluded the negative EUR54 million impact on SG&A related to restructuring costs incurred in last year's second quarter. Dominik will give more details on the adjustments in his part of the presentation.

Revenues in the second quarter of 2010 were up 29% to EUR4.6 billion. Organically, revenues increased by 13%. Gross profit amounted to EUR825 million. Our gross margin was 17.8%, as said, equal to Q2 2009, and down 110 basis points when adjusting Q2 2009 for the change in the French business tax law, and when excluding acquisitions.

SG&A increased by 8% and was flat organically and adjusted. In the second quarter, EBITA before integration costs, grew double-digit, up 46% on an adjusted basis and organically. The EBITA margin, before integration costs, was 3.8%, up 100 basis points, year on year. Net income was EUR97 million in the quarter under review.

We now go to the organic revenue development by region. First of all, all regions are back to organic revenue growth, which hasn't been the case since three years. North America achieved 15% organic revenue growth in Q2 2010, driven by strong growth in the general staffing business. When excluding the counter-cyclical Outplacement business, North America was up 21% organically.

In Europe, revenues in the second quarter were up 15%, compared to the same period last year. The revenue momentum accelerated in most countries. France, Germany, Italy, Nordics and Iberia all grew double-digit. Benelux and Switzerland also improved materially and returned to positive single-digit revenue growth. The European region was still held back by UK and Ireland, where revenues were down 3% organically.

The Rest of the World was up 4%. Growth in Q2 2010 was still mitigated by Japan, where revenues were down 14%. The emerging markets, on the other hand, continued to deliver very strong results, with revenues increasing 27% on an organic basis, up from 19% organic year-on-year revenue growth in Q1.

As mentioned before, the Group's gross margin was 17.8% in Q2, flat year on year and down 110 basis points organically and adjusted. For ease of comparison, we adjusted the Q2 '09 results to reflect the new French business tax law impact, which was 40 basis points.

The Temporary staffing business had a negative impact of 60 basis points on the Group's gross margin in Q2. The Permanent placement business contributed, for the first time since seven consecutive quarters, positively to the Group's gross margin, and this with 20 basis points. Our Perm revenues were up 70% in constant currency and 27% organically.

The Outplacement business had a negative impact of 70 basis points. Recall that the Outplacement business still positively contributed 110 basis points to the change of the Group's gross margin in Q2 of last year.

Acquisitions had a positive impact of 70 basis points this quarter, up from a positive impact of 40 basis points in the first quarter, as MPS was included for the entire second quarter, compared to only two months in Q1.

Overall, this is a good result, given where we are in the cycle. Our strict pricing approach and the increased exposure to professional staffing are clearly contributing to this achievement.

We now review our main markets in more detail.

France, our largest market, generated 20% revenue growth in the second quarter. Revenues were EUR1.4 billion. Growth was mainly driven by better demand in automotive, chemicals and manufacturing. In Q2 2010, the EBITA margin was 3.8%, up 80 basis points, compared to the adjusted prior year's second quarter. Pricing stabilized on a sequential basis. Revenue growth in June continued to be strong, with plus 23% adjusted for business days.

In North America, revenues were up 51% in constant currency. On an organic basis, we achieved 15% revenue growth in Q2. Demand was strongest in automotive, consumer goods and technology. Excluding the decline in counter-cyclical Outplacement business, revenues were up 21% in North America organically. On that basis, revenues in June were up 25%.

Business in General Staffing was up significantly with revenue growth of 25% on an organic basis. And Professional Staffing, excluding our Outplacement business, also generated solid double-digit revenue growth, driven by strong demand in the engineering and technical segments.

The EBITA margin was 4.9%, down 30 basis points compared to Q2 '09, largely as a consequence of the weakening Outplacement business. Acquisitions added 50 basis points to the EBITA margin in Q2 2010. Integration costs for MPS amounted to EUR3 million in the quarter under review.

Revenues in the UK and Ireland increased by 84% in constant currency, positively impacted by the acquisitions of Spring Group and MPS. Organically, revenues declined by 3%; an improvement compared to the 9% organic revenue decline reported in the first quarter of this year. Whereas our temping business is still held back, the Perm business has delivered a solid growth rate of 37% organically.

The region contributed an EBITA of EUR5 million, despite integration costs related to Spring and MPS, which amounted to EUR4 million in Q2 2010. Compared to Continental Europe, the UK market continues to like.

In Japan, revenues in Q2 declined by 14% in constant currency to EUR314 million. The amount remained stable quarter on quarter, and we are still impacted by our large exposure to the late cyclical office segment. EBITA declined by 45%, in constant currency, and the EBITA margin was 5.2%, compared to 8.2% in Q2 '09. Costs continue to be very well controlled and managed, resulting in still superior profitability in the Japanese market. Market conditions have stabilized in Japan, but we still don't see any signs of a material pickup.

In Germany and Austria, the revenue momentum in Q2 accelerated significantly. Revenues in the second quarter increased organically by 20%, compared to a decline of 4% in Q1. The region generated an EBITA of EUR14 million, a significant improvement from the EUR4 million loss posted in the prior year's second quarter. The EBITA margin was 4.6%.

Our General Staffing brand in Germany grew by 30%, whereas the later cyclical Professional Staffing brand, DIS, returned to positive revenue growth of 5%. Revenue growth in June, adjusted for business days, was 34% for the General Staffing brand, and 13% for the Professional Staffing brand, DIS.

Revenue growth in the emerging markets accelerated to plus 27% in Q2, up from plus 19% in Q1. Growth was driven by Eastern Europe, where revenues increased by 37%, and India where the strongest growth with revenues of 66% was posted. In South America, revenues increased by 23%, all in constant currency, of course. The EBITA margin was 2.6%. Given the vast growth potential we see in the emerging markets, we continue to invest.

Finally, we discuss Adecco's development by business line on an organic basis. In Q2, revenues in office and industrial were up 15%; a strong improvement from the minus 1% year-on-year revenue decline rate in Q1. In the industrial business, revenues were up 24%, following a 5% increase in Q1.

Most notable improvements in the year-on-year growth rates were evident in North America, from plus 13% in Q1 to plus 37% in Q2; in Germany and Austria, from minus 1% to plus 33%; in Italy, from plus 1% to plus 29%; and in France, from plus 9% to plus 24%. The office business is still clearly lagging the industrial business; revenues declined by 2%. This compares to minus 12% in Q1.

In Japan, the revenue decline rate improved in Q2 to minus 13% from minus 24% in Q1. North America grew 11% after an increase of 7% in Q1. While the decline rate in the UK and Ireland, improved from minus 14% in Q1, to minus 11% in Q2.

In the Professional Business segment revenues in Q2 returned to growth of 2%; this compares to minus 7% in Q1. Excluding our Outplacement business, growth was 6% in Q2 2010.

And with this, I conclude the first part of my presentation and hand over to Dominik.

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**Dominik de Daniel** - *Adecco SA - Group CFO*

Thank you, Patrick. Good morning, ladies and gentlemen. Welcome from my side as well.

I would like to begin with an overview of the profit and loss statement. In Q2 '10, we had revenues of EUR4.6 billion, up 29% on a reported basis, and an increase of 13% organically. The gross margin was 17.8% in Q2 '10, flat compared to Q2 '09, and down 110 basis points when adjusting Q2 '09 for the change in the French business tax law, and excluding acquisitions.

With respect to the new French tax law, we adjusted the prior year's second quarter for easier comparison, same as we did in the first quarter. We therefore exclude EUR15 million from cost of services, and EUR1 million from SG&A in Q2 '09. In Q2 '10, the impact on cost of services was EUR17 million, and EUR1 million on SG&A.

SG&A was up 8% in Q2 '10, compared to the prior year. Organically and adjusted, SG&A was flat compared to Q2 '09. Sequentially, SG&A was up 3% on an organic basis.

The Group's EBITA was EUR168 million, up 39% on adjusted basis, and organically. The EBITA margin was 3.6%, up 80 basis points in Q2 '10, compared to the adjusted Q2 '09 margin of 2.8%.

Excluding EUR7 million integration costs, EBITA was EUR175 million and the EBITA margin was at 3.8%, up 100 basis points.

Net income amounted to EUR97 million in the quarter under review.

Now let me discuss in more detail how our cost base developed in the second quarter. We continued to maintain strict cost control throughout the quarter, despite double-digit revenue growth. SG&A increased by 8% on a reported basis, compared to the prior year's second quarter. When adjusting last year's Q2 for EUR54 million of restructuring costs, and on an organic basis, SG&A remained flat year on year, reflecting an organic reduction of FTEs by 7%, and branches by 11%, offset mainly by higher bonuses, some wage inflation and integration costs.

Sequentially, the reported SG&A increased by 10%. Given that MPS was only consolidated as of February 1, '10, 4% of the 10% increase is due to the consolidation of MPS for the entire second quarter. Of the remaining 6%, 3% is related to currency, and 3% represents the organic cost increase. Two-thirds of the organic cost increase is related to higher bonuses, as our result in the second quarter was pretty good. Sequentially, and on an organic basis, FTEs increased by 1% mainly due to hirings in the emerging markets.

Moving on to the balance sheet. At the end of the first half '10, we had cash and short-term investments of EUR438 million. DSO at 53 days in the second quarter equal to Q2 '09.

Goodwill and intangible assets amounted to EUR4 billion at the end of June '10. Compared to year-end '09, goodwill and intangible assets increased by EUR1 billion, primarily as a result of the consolidation of MPS Group, as well as currency movements.

Adecco shareholders' equity was at EUR3.4 billion at the end of June, up EUR307 million compared to year-end '09, driven by net income, the dividend payout, and currency fluctuations.

Turning to the cash flow statement on slide 20. The operating cash flow generated in the first half of '10 amounted to EUR30 million compared to EUR282 million in the prior year. Given the improvement in revenues, working capital needs increased in the first half of this year compared to the same period last year. Nonetheless, we were able to generate a positive operating cash flow in the first half of 2010.

Cash flow from investing activities was impacted by the purchase price consideration for MPS Group. The cash paid for MPS amounted to EUR831 million net of cash acquired. We invested EUR45 million on CapEx and paid dividends of EUR91 million in the first half of 2010.

Net debt at the end of June '10 was EUR1.07 billion, an increase of EUR959 million compared to year-end '09. The increase in net debt is mainly a consequence of the purchase price consideration for MPS Group. Note that the net debt increased slightly from Q1 to Q2 as the business picked up and we paid dividends of EUR91 million.

Let me now give you a brief update on the integration of our acquired businesses, Spring and MPS. First of all, the integration of both Spring and MPS is well on track. On MPS, decisions on lead brands have been made and communicated. Our combined US legal business will operate under the brand name Special Counsel. Our combined finance and accounting business will operate under the brand name Accounting Principals, and our combined IT business will operate under the brand name Modis.

Spring and Adecco UK combined their front office systems in Professional Staffing during the second quarter 2010. All back offices, including MPS UK, will be consolidated until the year end.

We are well on track to achieve our expected annual synergy target of [EUR13] million for Spring until the end of '10, and EUR25 million for MPS within two years.

We will give a more detailed update on integration and synergies at our investor days in Miami in September.

And finally, I would like to update you on our financial guidance for 2010. As previously stated, we are planning for CapEx of around EUR100 million for the year 2010. Interest expenses are expected to be around EUR65 million for '10, excluding the interest income.

Our corporate costs are expected to be approximately EUR70 million.

Following the consolidation of MPS Group, we expect amortization of intangibles of approximately EUR55 million for the Adecco Group in 2010, and in Q3 2010, we expect the tax rate of approximately 35%, whereof 10% is related to the French business tax.

Please consider that Q3 of last year was positively impacted by the reassessment of existing accruals in France of about EUR11 million.

With this, I hand back to Patrick.

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

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

Throughout the second quarter, the revenue momentum continued to accelerate in most markets, and to date, we have not seen a slowdown in our business. We exited the quarter with 16% revenue growth in June for the Group, organically and adjusted for business days. July showed growth in line with June.

We continue to exploit growth opportunities, while at the same time, price discipline and cost control remain priorities in the Company. For the third quarter, we feel comfortable with our second quarter cost base without considering integration costs and excluding currency impacts.

The second quarter results show that we make good progress to grow the top line, while benefiting from operating leverage as a result of the cost measures taken in the downturn. Let me, therefore, confirm our clear commitment to achieve an EBITA margin of above 5.5% mid-term.

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

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## QUESTIONS AND ANSWERS

**Operator**

We will now begin the question and answer session. (Operator Instructions). The first question from Mr. Jaime Brandwood, UBS. Please go ahead, sir.

**Jaime Brandwood** - *UBS - Analyst*

Morning, Patrick. Morning, Dominik. I just wondered, could we start by talking about the performance of MPS, because it looks like in the quarter, MPS as a standalone had a very strong performance, particularly at the EBIT level. Could you give us a little bit of a sense for how MPS is doing?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Good morning, Jaime, Dominik speaking. MPS is doing very well, especially in the US. We have very good margins in this business, and MPS contributed basically around 30% to the US profit. There we have on top considered some kind of integration costs, which are there, but the majority of the integration costs are more on the Adecco business.

So basically, if we look to the second quarter, we showed in North America and MPS an EBIT margin of around 6.5%, which is quite solid for a business which we just acquired.

If we look to the trends within MPS, we see a very good demand in the engineering business; we see the IT business is growing. Within Adecco US, the IT business is slightly down; always compare the prior year. So it's doing very well.

If we look to the UK, it also has in the UK especially our profitability. Of course in the UK, we have to see that the more finance accounting business and so on is also strongly involved in public sector, which is maybe going forward a little bit difficult. But overall, we are very pleased with the development of MPS.

**Jaime Brandwood** - *UBS - Analyst*

And can you just say what the organic sales growth of MPS was in the US and UK, exiting Q2?

**Dominik de Daniel** - *Adecco SA - Group CFO*

It is -- let's say it is very difficult to see the organic because we also have and there are some movements already. And they basically are back to growth like in Professional.

**Jaime Brandwood** - *UBS - Analyst*

Okay. And then just your comment on July for the Group as a whole, that July is basically tracking similar to June. I'm guessing that means a year-on-year growth. I know it's difficult, because there's a lot of seasonality involved, particularly in countries like France in July versus June. But if you try to adjust for seasonality, do you have a sense for what is happening on your business in your overall Group business, July versus June? Whether there's still some positive momentum coming through month on month, as opposed to year on year?

**Dominik de Daniel** - *Adecco SA - Group CFO*

We talked there really about month compared to month, which is very difficult. And we have to compare this, then really with a rather long-term view to look at what is the month-on-month development. And if we look back the last 10, 11 years, I would say it's more or less -- the development is more or less the median of the last 10, 11 years where you had, let's say, strong pickups, and you had also deceleration. And this is more or less also reflecting a little bit in the year-on-year growth rate.

**Jaime Brandwood** - *UBS - Analyst*

And then lastly on Permanent recruitment, I think you said Perm for the Group as a whole was up 27% in Q2, and you also gave us the UK number, plus 37%. Can you give us a bit of country detail for Perm in some of the other key countries? And also tell us what Perm as a whole was doing in June, July?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

So if we look overall at the 27% of our organic growth in Perm, of course with the acquisition of MPS and Spring, we add a lot of Perm, therefore for the whole Company it's up 70%.

If we look to the, let's say, main markets where the majority of our Perm revenue is coming from, we see there are very good movements. France from minus 7% in Q1 to plus 26%. North America, minus 1%, plus 14%. This is below average because the outcome is also much (inaudible) to Professional, which is maybe here and there a bit later in the cycle. UK from minus 5% to 37%. The emerging markets from -- they are very strong, they are from 31% in Q1 to 62% in Q2.

And if we look throughout the quarter, we have seen a pretty similar development like in the temping business, which means that our growth rate throughout the quarter increased. The exit rate organically [grown] by 33%, and July's a pretty similar level.

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**Jaime Brandwood** - *UBS - Analyst*

And that French growth that you gave me, the plus 26%, is that including Pole Emploi?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

No. No, the Pole Emploi is for us not a dedicated Perm business, it is let's say a similar business, but we not include Pole Emploi in this. This is only the normal Perm placement business where our clients have paid for a placement for a candidate.

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**Jaime Brandwood** - *UBS - Analyst*

Thanks a lot.

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**Operator**

Next question from Mr. Tom Sykes, Deutsche Bank. Please go ahead, sir.

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**Tom Sykes** - *Deutsche Bank - Analyst*

Yes, morning everybody. I just wondered -- it's a follow-on to Jaime's question really on the growth, and obviously you gave the month-on-month growth. But in your most cyclical, most light industrial businesses, what are you actually seeing there in terms of the number of temps, or the hours per temp?

Are you seeing any -- obviously, you comment at the Group level, but is there any cause for concern at those very, very front-end businesses? And in particular, maybe if you could make some comment between number of hours they're working, and also the -- versus the volume of temps, please.

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**Dominik de Daniel** - *Adecco SA - Group CFO*

Overall, the numbers of hours increased somewhat, but it's not a lot. If we look overall, we see a normal seasonal pattern towards July. That of course -- then this is more a base effect of course in markets where we rather have seen last summer that the industrial business for the early cyclical (inaudible) business picked up early, that they're coming now to a kind of base effect, this is what we're seeing.

On the other hand, we're seeing then more professional business which are rather late cyclical, that they are doing a little bit better. So overall, there for the July growth rate is pretty similar than the June growth rate adjusted for trading days.

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**Tom Sykes** - *Deutsche Bank - Analyst*

Okay. And the comments about being the median in the last 10, 11 years. I suppose it's a bit harder for a market that's been moving round quite so much. But do you still feel like on the light industrial side that you're still adjusted for seasonality, getting some positive month-on-month growth, or do you think it's just mixed benefits that you're gaining from now?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

Let's say from June to July things are still slightly better, but as I said, you have to take the median; we compare here one month with the other, which is very (inaudible).

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**Tom Sykes** - *Deutsche Bank - Analyst*

Sure, okay. And just in terms of the professional businesses then, in terms of either wage rate growth, or length of assignment, what are you seeing there? Maybe some of your IT customers about their CapEx spend and project spend; is there any granularity that you could give us on the professional businesses, please?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

What we have seen so far is that the engineering business within Professionals picked up earlier. So we have seen this very clearly already in Q1 when our US engineering business was growing in Q1 19%, and it has a strong acceleration on Q2 to 46%, so this business is doing very well. You know, we have a strong engineering business also in Germany who comes now in Q2 clearly back to growth.

In the IT space, the picture is a little bit mixed. As I said, the US IT business organically is still declining somewhat. On the other hand, the MPS [ICPs], as far as we can compare this in this way, is somewhat up.

In the UK, the IT business, but these are rather volume accounts, increasing already, so there is some growth. When we look to wage inflation compared to prior years, it's still lower wages, let's say in markets like the US where wages are more flexible, but sequentially it's pretty stable.

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**Tom Sykes** - *Deutsche Bank - Analyst*

Right. And then we should -- well you should get the benefits from the collective labor agreement changes, the wage changes in Germany and then France in the second half of the year. Is that --?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

If you look to this, the new collective wage agreement was implemented in Germany as of January 1, so -- sorry, as of July 1. Where it was necessary, we -- the big majority we passed to our clients, and there we have to see, but this is more applicable really for the channel staffing brand business, like Adecco (inaudible); there you have certain benefits. In the DIS business, you nevertheless had before in professionals above salaries, which are clearly above the collective wage agreement, so there was no need to change the wage, and also no need to change the price.

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**Tom Sykes** - *Deutsche Bank - Analyst*

Okay. And sorry, just a final question. It was just is there any more benefit at gross margin level in Q3 of -- to the utilization of employees in Germany, or Sweden I think was the other country you had problems from?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

Let's say, if you look to the overall margin compared to prior year, there was still a slight positive impact, but it was less than 10 basis points. For Germany and Sweden, for the whole temp margin, and Q3 last year was already pretty good utilized. So from this point of view, I should not expect any major impact.

But what you have to see is that of course in a country like Germany or like Sweden where you have the people on the book, a Q3 margin is clearly much better than a Q2 margin, given the fact that we have in Q2 a lot of bank holidays, and in Q3 basically a lot of working days and no bank holidays.

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**Tom Sykes** - *Deutsche Bank - Analyst*

Yes, sure. Okay. Thanks very much.

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**Operator**

Next question from Mr. Konrad Zomer, Cheuvreux. Please go ahead, sir.

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**Konrad Zomer** - *CA Cheuvreux - Analyst*

Hi, good morning everybody. I have a few questions. The first is on the pricing pressure on the temp business; I was positively surprised by the minus 60 basis points in Q2. Can you maybe give us a feel for what Q3 could look like?

And the second question is on integration costs. Can you maybe give us an insight into what you expect for integration costs in Q3?

And my final question is on the Outplacement business; it obviously had quite a negative impact on your margins in the US. Can you give us what proportion of your EBITA in the US came from the Outplacement business, in Q2?

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Konrad, I will take your first question, and Dominik will take your second and third one.

The pricing pressure we clearly see stabilizing now, and we also expect this now to stabilize further into the year. So in our main markets, whether it's France, US, we will continue to stay at these levels, and then of course, further on, slightly improve.

**Konrad Zomer** - *CA Cheuvreux - Analyst*

Okay.

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

On the integration costs, Dominik?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Maybe you have also to see a little bit by the temp margin the mix effect, because from the 60 basis points, 20 basis points of this decline is just the mix effect as our industry business, with the lowest temp margin is growing 24%, whereas our organic growth is 13%, just said.

Now if we look to the integration costs, we had, in the recent quarter, for Spring and MPS around EUR7 million, and there will be a couple of million higher in Q3; so somewhat higher in Q3.

And then, if we look to our Outplacement business Lee Hecht Harrison, they basically contributed one-quarter to the reported EBITA, of the US business, in the recent quarter.

**Konrad Zomer** - *CA Cheuvreux - Analyst*

Okay, thanks very much.

**Operator**

Next question from Mr. Andrew Grobler Credit Suisse. Please go ahead sir.

**Andrew Grobler** - *Credit Suisse - Analyst*

Good morning. I've just a couple of questions. In terms of your cost base, you said you were happy with the Q2 cost base going into Q3. At what point do you think you will start more actively hiring?

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

At this moment, our hirings, like we've done in Q2, are really on those markets where we see growth above 20%. Of course, the emerging markets, but also markets like Germany, some business lines in France, and then in the US. But again, it's very limited. The hirings that we are expecting to do into Q3, you should see similar additions to the FTEs as you have seen Q2 over Q1.

**Andrew Grobler** - *Credit Suisse - Analyst*

And do you still -- given the spare capacity that must still be in much of the system, at what point do you think you'll get to some of that capacity being fully utilized, and you'll have to hire in line with volume growth?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Let's say we still believe that we have around 15% kind of over capacity, or spare capacity, let's say spare capacity, but it depends a lot from country to country, and it's not black and white. So we have to really look business by business, unit by unit, what makes sense, what makes no sense.

But of course, after this restructuring, our clear aim is to show good operational leverage, and therefore we work very close to the cost base. And then, when we have to hire and so on, that depends a lot in which country, region we see which revenue development.

So you see from Q1 to Q2, we had 1% more FTEs. This is primarily related to emerging markets, because the emerging markets, they went basically nearly nothing, down last year. They have good growth, we have some additions.

Now, from Q2 to Q3, we have also to consider, besides that (inaudible) integration related, we need some people for time of [over let] to integrate the back office. We have to see in which markets we here and there see good growth opportunities, where we want to come also stronger. There we add some heads, like in Germany, like Patrick outlined. But we do this very selectively.

And then of course, we use this downturn also to change a lot in our delivery model, then this change in delivery model should bring also more efficiency back when the growth is there.

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**Andrew Grobler** - *Credit Suisse - Analyst*

Okay. And then just secondly, on -- in terms of growth rates and structural factors impacting, there's been lots of discussion about clients utilizing more temps in this pickup; what are you seeing in that case? And do you think that that is sustainable, or it's going to run through after a year or two?

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

If you look at the business growth that we're having, we clearly have a higher multiple than coming out of other downturns. But of course, this was also the most severe downturn, if you compare it to GDP growth.

Now you've seen last week, the job report in North America for example, and you see that on the fixed hirings, there were not a lot of jobs added; only 71,000 in the private sector. And like, from the end of last year, or the beginning of this year, a lot of the governments were saying this is going to be a jobless recovery, and we can only underscribe that, because the companies that are adding capacity in terms of workforce, that having hired them out, or rebuilding stocks, they do it mainly with temporary workers. And that's why we are growing now so fast, despite the economical growth in Europe still not being that high. Exception given to some countries like Germany.

In US, we still see a very good economic growth, but there also we have, especially on the industrial side, a much higher multiple than what we usually have, and that's again because our companies are only hiring or mainly hiring, temporary workers.

You see that also in the perm development, our perm development is very strong and will continue to pick up, we believe. But then again, you have to see that last year, we went down with almost 50%. So if you increase now with 27%, you are at 64%, so you're still down 36%. And going forward, you have to take that into account. So the perm hirings are picking up, but compared to a very low basis.

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**Andrew Grobler** - *Credit Suisse - Analyst*

Okay, right. Thank you very much.





THOMSON REUTERS

**Operator**

Next question from Teun Teeuwisse, ABN Amro. Please go ahead sir.

**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

Good morning, gentlemen. I have a question on the EBITA development you show in Benelux, US and Germany. Especially in the Benelux, you see sales going up sequentially, but EBITA is going down. And in the US and Germany, it seems like the sequential sales increase is not translating into a similar EBITA. Can you explain what the reason is for that?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Yes. Good morning Teun, Dominik speaking. So first of all, we have to see that in our business in the Benelux, our Professional Staffing business is still somewhat weak. And we had to reduce our benchmark, so we had also some costs to manage this in order that the gross margin becomes better going into Q3. And this is the main reason.

And we have also to consider that the bank holidays, and this is also the main reason for Germany, we pay them under US GAAP basically when they occur. And therefore, the Q2 margin is, in some countries, where like Germany, where you have the people under secondment there, you have the people on the book, is rather a low margin quarter.

So that's for the Benelux and also for the German business.

Now for Germany, you have to see on top, if you look into Q3, or if you look back every year, you see the very good margin in Q3, and you see the lowest operating margin in Q2. So we are very confident for the profitability going into Q3. Given the fact we have the people employed, we have highest amount of working days, and basically no bank holidays.

And this is also explaining why the margin in Q2 is somewhat below Q1, but you have to look also compared to the prior year. Prior year in Germany we had EUR4 million loss; there we had maybe EUR2 million restructuring costs, so operationally it would be about EUR2 million, and now we're making here EUR13 million profit.

So there is a good margin improvement, and this continues to be good margin improvement.

In the US, you have to consider that of course, our Lee Hecht Harrison business, sequentially -- our Outplacement business is still sequentially somewhat contracting, in terms of profit, and that we have sequentially more integration costs there. We said to the Q1 call, also, that basically two years ago, we said to our workforce in the US that we make, starting from a certain salary level, a pay cut of 5% in order to take more costs out. And a part, 2% of this pay cut we give to the people now back. So this is -- they are the reason.

But if I look to our US business, and take our Lee Hecht Harrison and MPS business out, EBIT margin wise, they clearly doubled their EBIT margins in the second quarter.

**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

All right. And just to follow-up on Benelux then. Did it come as a surprise to you that in the Professionals business, the idle time was increasing so much still?

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Actually, it didn't increase that much. We only managed it in Q2, that's the true answer. And we managed it in Q2, we took the cost centers as from now, and you will see that also in Q3, it's going to be quite some improvement.

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**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

Okay. But that is -- implicitly you're saying that you don't expect it to improve in the near-term then?

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

I said it's going to be improved in -- it's going to improve in the third quarter.

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**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

All right. And then the final question. On the engineering business in Germany, you mentioned that it was going up by 9%. I assume that's mainly euro engineering. Can you tell me what the trend was in the engineering business, throughout the quarter, and what segments are performing well, and which are still weak?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

So basically, you talk about the German business or worldwide?

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**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

No, the German engineering business.

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**Dominik de Daniel** - *Adecco SA - Group CFO*

The German business. So April was still declining, but now it developed, then basically in April and in May was back to growth. And then clearly double-digit in June.

The main demand which we are seeing is from the automotive, or automotive-related industries, but also the kind of machinery industry. These are the main reasons where things are picking up.

The area is still weak, rather weak, is the whole aviation part, but there you have also to consider that the aviation part was last year rather resilient, so it was not so much under pressure than the other sectors.

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**Teun Teeuwisse** - *ABN Amro Bank - Analyst*

All right. Thank you very much.

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**Operator**

Next question from Mr. David Hancock, Morgan Stanley. Please go ahead sir.

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THOMSON REUTERS

**David Hancock** - *Morgan Stanley - Analyst*

Thanks. Good morning, everyone. Just a couple from me. Firstly on the Nordics, where you saw to me a surprisingly strong revenue improvement and a particularly good margin given the bank holidays in Q2. Can you just talk about what drove the improvement in both revenues and margin in the Nordics please?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

We have to see our -- in the Nordics, we have two main markets; that's Norway and Sweden. And the Sweden growth is extremely strong; we're growing around 50% and this is quite strong. We're clearly gaining there the market share and the utilization rate is now really on a very good level. Last year was still a little bit under utilization, so this is a very important area.

And in the recent months, also the business in Norway picked up quite well, so it's just started but it's our biggest business in the Nordic regions, and we're basically clearly benefiting from this operational leverage there.

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**David Hancock** - *Morgan Stanley - Analyst*

Great, thank you. And then, in Japan, by contrast, the performance was not quite so strong and I think in local currency, revenues fell 5% in Q2 compared to Q1 in a quarter that normally you'd see some seasonal improvement. So can you just talk about your statement that demand is stable there quarter on quarter when, if anything, it looks like it might be weakening?

And could you give us any update on the regulatory situation in Japan as well please?

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**Patrick De Maeseneire** - *Adecco SA - Group CEO*

On the regulatory situation, the bill should have passed this summer. It was postponed because of a change on the government, change of the minister, and is at this moment questioned again.

Now whether it passes or not, it won't affect Adecco's business for more than 5% because we are -- with the categories that we operate in, we are not affected by this new legislation. As you know, we are mainly in office and these categories stay out of the bill and it's still to be seen whether it's going to pass or not. It's at least postponed for the moment.

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**Dominik de Daniel** - *Adecco SA - Group CFO*

If you look to Japan, Japan is a country where the seasonality in number of temps is very low, so it's pretty stable besides the incremental growth. And this kind of stable amount of demand of people we observe in the Japanese business, and that's the reason why our decline rate on a year-on-year comparison improved from a very low level of minus 24% in Q1 to minus 14% in Q2. It's just the base effect so -- and we see no material pickup there. That means this decline should still improve further, but not because now we see more demand. It's just because last year, we had a kind of contraction.

If you look to the margin, and the margin was last year in Q2 very strong, it was more than 8%, which we said [all the last year], this is clearly an outstanding peak margin, I think the 5.2% even if the business is not picking up, we are rather at the trough level. So even if the margin is declining maybe next quarter, it will be not that strong a decline.

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**David Hancock** - *Morgan Stanley - Analyst*

Thank you. And the last operational one is just on France. Are you getting any traction in public sector in France?

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

The public sector is a sector that reacts pretty slowly. We are up in the public sector, of course, because of the opening last year, but it's not material in our total increase of 20% that we're having in France.

**David Hancock** - *Morgan Stanley - Analyst*

Thanks. And then very last one. Dominik, just on the tax rate, I think you guided for a 35% tax rate for Q2 and obviously you came in some way below that. Are there more one-offs that may bring the tax rate down in Q3 as well below that 35% that you've indicated?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Let's say for the time being I'm not expecting them, otherwise I would have guided for this. And as you know, with this resolution of tax audits and so on, this we can only consider when we know it. And so there is no implication of any kind of tax audit resolutions also in this 35% guidance for Q3.

**David Hancock** - *Morgan Stanley - Analyst*

Great, thank you very much.

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Thank you.

**Operator**

Next question from Mr. Kean Marden, RBS. Please go ahead sir.

**Kean Marden** - *RBS - Analyst*

Morning, Dominik. Morning, Patrick.

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Morning.

**Kean Marden** - *RBS - Analyst*

Can I first of all start off with Germany? I'm afraid I caught some of your comments regarding June growth but I think I missed out one. So I think you believe that you flagged up that the June growth rate in Professional was 13%. I'm afraid I missed the general number; was it plus 40%?

**Dominik de Daniel** - *Adecco SA - Group CFO*

It was actually 34%.

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**Kean Marden** - *RBS - Analyst*

34%?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

But only for channel [re-staffing].

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**Kean Marden** - *RBS - Analyst*

Yes. And if we look at Germany as a whole for June, what would that number be?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

39%.

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**Kean Marden** - *RBS - Analyst*

39%, okay. And we've touched on seasonality of gross margin as well. Could you give us an indication of what the gross margin was in the second quarter for Germany? And then what seasonal sequential improvement you tend to see in the third quarter as the idle time drops away?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

We are not disclosing gross margins by country. The gross margin was nicely up in Germany because of the cost of the (inaudible) utilization, so this was strongly up. And normally, the gross margins in the third quarter should be 150, 200 basis points higher than in Q2 in a normal environment.

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**Kean Marden** - *RBS - Analyst*

Okay. That's a good way of answering the question. Thank you. And then moving on to France. Could you give us an indication of how the gross margin develops. And also, what your Perm revenues are running at in the second quarter in France now please?

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**Dominik de Daniel** - *Adecco SA - Group CFO*

If you look to the Temp gross margin in France, we are down 80 basis points, so this is basically a little bit improvement compared to Q1, where we still were down 100 basis points. And our Perm placement business in Q2 was up 26%.

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**Kean Marden** - *RBS - Analyst*

Okay. Have you got a euro number for that?

**Dominik de Daniel** - *Adecco SA - Group CFO*

It is -- yes, it's around EUR10 million.

**Kean Marden** - *RBS - Analyst*

Yes, okay. And then just finally from me; MPS and Spring obviously are tracking ahead of expectations at the moment. I think partially that's obviously due to an encouraging revenue environment, but it does feel at the moment as if the cost synergies are maybe tracking a little ahead of expectations as well. Is that something that you'll provide us with more information regarding in September? Or can you shed a little light on that now?

**Dominik de Daniel** - *Adecco SA - Group CFO*

We are well on track when it comes to the integration of MPS and also when it comes to our synergy targets, and what I said in my speech is that, of course, this is an important topic also for our investor days in Miami, yes.

**Kean Marden** - *RBS - Analyst*

Okay, understood Dominik. Thanks for your time, guys.

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Thank you.

**Operator**

Today's last question is from Mr. Toby Reeks, Merrill Lynch. Please go ahead sir.

**Toby Reeks** - *Bank of America Merrill Lynch - Analyst*

Hi there. Could you -- I'm not sure if I missed this, but could you give us the April, May and June numbers for Group organic growth?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Well, we basically -- we started the Q2 with 8% and we ended it with 16%.

**Toby Reeks** - *Bank of America Merrill Lynch - Analyst*

Okay. Then could you also give me, on gross margins, as we go into Q3 the HCS gross margin it hits an easier comp. Should we expect a less negative decline in Q3 than we saw in Q2?

**Dominik de Daniel** - *Adecco SA - Group CFO*

Let's say it is true that the comps were very tough in the first half this year.

**Toby Reeks** - *Bank of America Merrill Lynch - Analyst*

Okay. And then a similar comment on the pricing for the Temp gross margin. That alone, excluding the mix effect, I think we now annualize when you had finished signing all your contracts at a lower price in Q3 last year. Should we expect an improvement in pricing by Q4?

**Dominik de Daniel** - *Adecco SA - Group CFO*

I think we never said something that we had a special program to sign contracts at lower prices. So there was no base effect or that we said something until Q3, we signed lower prices, and that's really not the case. We always try to manage our Temp margin very well.

What we're saying is basically what we see since the beginning of the year, that pricing is sequentially stabilizing. And last year, we had sequentially still somewhat competition, but it was also not a lot because I think for the last year, our Temp margin was very well managed. So based on this, it's not that we have now a certain big basis effect coming in.

**Toby Reeks** - *Bank of America Merrill Lynch - Analyst*

Okay. And then finally, the tax rate of 35%. Did you say that's guidance for the full year, or did you say it's just for Q3?

**Dominik de Daniel** - *Adecco SA - Group CFO*

It's just for the Q3.

**Toby Reeks** - *Bank of America Merrill Lynch - Analyst*

Just for Q3. Okay, thanks very much.

**Patrick De Maeseneire** - *Adecco SA - Group CEO*

Thank you. Thank you, ladies and gentlemen, for your attention and interest in our Company. We look forward to hopefully seeing many of you at our investor days in Miami on September 23 and 24.

And for your information, we report our Q3 2010 results on November 9.

See you soon and have a nice day. Thank you. Bye-bye.

**Operator**

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