FINAL TRANSCRIPT

Thomson StreetEvents℠

AHEXF.PK - Full Year 2010 Adecco SA Earnings Conference Call

Event Date/Time: Mar. 03. 2011 / 10:00AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Karin Selfors
Adecco S.A. - Head of Investor Relations

Patrick De Maeseneire
Adecco S.A. - Group CEO

Dominik de Daniel
Adecco S.A. - Group CFO

CONFERENCE CALL PARTICIPANTS

Kean Marden
RBS - Analyst

Marc Zwartsenburg
ING Financial Markets - Analyst

Andrew Grobler
Credit Suisse - Analyst

Konrad Zomer
Berenberg Bank - Analyst

Alain Oberhuber
Mainfirst Bank AG - Analyst

Jaime Brandwood
UBS - Analyst

Toby Reeks
BofA Merrill Lynch Intl. - Analyst

Laurent Brunelle
Exane BNP Paribas - Analyst

Teun Teeuwisse
ABN Amro Bank - Analyst

Rajesh Kumar
HSBC - Analyst

PRESENTATION

Operator

Good morning. I'm Stephanie, the Chorus Call operator for this conference. Welcome to the Adecco Q4 full year 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. Karin Selfors, Head of Investor Relations, accompanied by Mr. Patrick De Maeseneire, CEO of the Group, and Mr. Dominik de Daniel, CFO of the Group. Please go ahead, ladies and gentlemen.

Karin Selfors - *Adecco S.A. - Head of Investor Relations*

Good morning, ladies and gentlemen, and welcome to Adecco's fourth quarter and full year 2010 results conference call. Patrick, Group CEO, and Dominik, Group CFO, will lead you through the presentation today followed by a Q&A session. Before we start, please have a look at the forward-looking statement in this presentation.

Let me give you a quick overview of today's agenda. Patrick will present the operational highlights to you, and then Dominik reviews the financials, after which Patrick will give you an outlook on our business before we open the lines for your questions.

With that, Patrick, I hand over to you.

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

Thank you, Karin. Good morning, ladies and gentlemen, and welcome to today's results conference call. 2010 was a good year for Adecco. Most of our markets returned to strong double-digit revenue growth during the year. The main driver was clearly the Industrial segment, and also the later cyclical Office and Professional Staffing segments returned to growth.

For the full year, we achieved 12% organic revenue growth, and a 40% increase of EBITA, this adjusted and before integration costs. Our disciplined pricing and strong cost control resulted in very good operating leverage.

Coming out of the downturn, our customers clearly value flexibility more than in the past, and see it as a strategic component of their labor force. We strongly believe that past peak penetration rates will be surpassed. This, together with the good results achieved in 2010, puts us in a very good position to achieve our mid-term EBITA margin target of over 5.5%.

Let me know focus on the highlights of the fourth quarter of 2010. We finished 2010 with a strong set of Q4 results. We delivered 17% organic top line growth, the same as in the third quarter, despite a more challenging base.

The strong revenue development continued to be driven by our main markets France and North America, both delivering organic revenue growth above Group average. And we even slightly increased the base in Germany, Benelux, Italy, Iberia, Nordics and Switzerland. In all markets, we achieved good profitability.

Demand remained very robust in the Industrial business, growing 25% in Q4 compared to 24% in Q3, despite a tougher base. But also the later cyclical Office business improved in Q4, growing 6% organically. The Professional Staffing business maintained its solid double-digit organic growth rate. The Q4 gross margin was 17.9%. As said, in the last couple of quarters, pricing in the temporary staffing business has stabilized.

We delivered strong operating leverage in Q4 as we maintained our strict cost and price discipline. EBITA before integration costs was EUR223 million, a strong 4.5% return on sales. This is up 110 basis points compared to the adjusted prior year's Q4. The 110 basis points increase in the EBITA margin compares to a 90 basis points increase in the third quarter.

For 2010, Adecco's Board of Directors will propose a dividend of CHF1.10 per share. This is a 47% increase from the 2009 dividend per share of CHF0.75, and represents a payout ratio of 30% on adjusted 2010 net earnings. We start as well into 2011 with revenues in January up 17% organically and adjusted for business days.

Let me go through the key figures in more detail now. As in the previous quarter, we adjusted the French business tax, and for -- we adjusted for the French business tax and for exceptional items in 2009. Dominik will discuss the adjustments in his presentation.

Revenues in the fourth quarter of 2010 were up 32% to EUR5 billion. Organically, revenues increased by 17%. Gross profit amounted to EUR894 million. Our gross margin was 17.9%, up 30 basis points compared to the prior year's Q4, and down 50 basis points year on year organically and adjusted.

Costs were again well controlled in Q4. SG&A increased by 19% compared to Q4 '09, or was up 6% organically and adjusted. Before integration costs, however, SG&A increased only with 4%.

In the fourth quarter, EBITA before integration costs was EUR223 million. The return on sales was 4.5%, up 110 basis points year on year. Net income was EUR141 million in the quarter under review.

We now go to the organic revenue development by region.

All regions have maintained very sound revenue growth during the fourth quarter. North America achieved 18% revenue growth in Q4 2010. When excluding the counter cyclical Outplacement business, revenues in North America were up 21% in Q4. General Staffing revenues grew 25%, while Professional Staffing, excluding Outplacement, generated solid double-digit revenue growth.

In Europe, revenues in Q4 were up 19%, a further acceleration compared to the organic growth rate of 18% achieved in Q3. Especially in Germany, Benelux and Switzerland, we saw further accelerating growth, with revenues increasing strongly double digit.

Growth in France remained very robust at plus 19%. The revenue decline rate in the UK and Ireland was unchanged versus the third quarter at minus 1% organically.

Rest of World was up 9%. Revenue growth in Q4 2010, continued to be held back by Japan, where revenues were down by 4%. Growth in Australia and New Zealand was very sound at 21%, as was growth in the emerging markets, where revenues were up 20%.

We now review our main markets in more detail. France, our largest market, delivered a very strong growth of 19% in the fourth quarter, same as in Q3. Revenues were EUR1.5 billion. Growth continued to be driven by strong demand in automotive, chemicals, transportation and manufacturing.

In Q4 2010, the EBITA margin was 4.0%, flat compared to the adjusted prior year's fourth quarter. The same gross margin has been stable since Q1 2010.

The recently announced reduction in the French payroll tax subsidy had a negative impact of 90 basis points on the French gross margin in December 2010, resulting in a 30 basis points hit on the French gross margin for the full quarter. Based on initial negotiations with clients to pass this on, we estimate the negative effect for 2011 at maximum 30 basis points.

Revenue growth in January 2011 continued to be strong, with plus 20% adjusted for business days.

In North America, revenues were up 54% in constant currency. On an organic basis, we achieved 18% revenue growth in Q4. The amount was strongest in the automotive, consumer goods, industrial and technology sectors.

Excluding the decline in counter cyclical Outplacement business, revenues were up 21% in North America organically in the quarter. In January, revenues were up 18% organically and adjusted for business days.

General staffing revenues grew again strongly, increasing by 25% organically, while Professional staffing, excluding our Outplacement business, grew 13% organically. The EBITA margin was 5.1% in Q4. Acquisitions added 50 basis points in this quarter.

Integration costs for MPS amounted to EUR8 million in the quarter under review. The integration of MPS Group has gone very smoothly so far, with results clearly above our initial expectations. We are well on track to complete the integration in 2011, and will even exceed the initially targeted synergies of EUR25 million.

Revenues in UK and Ireland increased by 41% in constant currency, positively impacted by the acquisitions of Spring and MPS. Organically, revenues declined by 1% in the fourth quarter.

Organic growth in the Perm business accelerated from 38% in Q3 to 43% in Q4. The region contributed an EBITA of EUR4 million in Q4 2010, despite integration costs related to Spring and MPS which amounted to EUR4 million. The EBITA margin before integration costs was 2.1%.

The integration of Spring Group has been successfully completed at the end of 2010. Targeted synergies of EUR30 million were even slightly exceeded.

The integration of MPS in the UK continues to be fully on track, and should be completed during 2011.

In Japan, fourth quarter revenues declined 4% in constant currency to EUR336 million. Business in the labor cyclical Office segment, accounting for close to 80% of Adecco's revenues in Japan, remained slow. EBITA declined by 23% in constant currency, and the EBITA margin was 5.0%.

While market conditions have stabilized in Japan, we still don't see signs of real recovery, but we are back to growth in January, thanks to the outsourcing contracts we won last year. We had some ramp-up costs associated with these outsourcing contracts, mostly in the fourth quarter, which negatively impacted our profitability.

In Germany and Austria, the revenue momentum has further accelerated in the fourth quarter, driven by strong growth in the Industrial business. Organically, revenues increased by 32% compared to an increase of 29% in Q3 2010, driven by the automotive, industrial and electronics sectors.

We achieved strong profitability. The region generated an EBITA of EUR26 million in Q4. EBITA margin was 7.4 % in Q4 2010, up 200 basis points versus the adjusted prior year's fourth quarter.

January started very strong in Germany and Austria, with revenue growth close to 40% adjusted for business days. The recent Government decision to introduce a binding minimum wage for temporary workers is fully supported by Adecco. Our current Collective Wage Agreement is already in line with the Government's proposed changes.

Finally, we discuss Adecco's development by business line on an organic basis. In Q4, revenues in Office and Industrial were up 18%, a slight increase compared to the 17% growth rate in Q3.

The Industrial business continued to be strong, with revenues up 25% compared to 24% in Q3. Growth remains strong in North America, with revenues up 30% year on year compared to 40% growth in Q3; in Germany and Austria, where revenue growth accelerated from 39% in Q3 to 43% in Q4; and in Italy, where revenue growth accelerated from 40% in Q3 to 43% in Q4. In France, revenues grew 21% in Q4 2010, the same growth rate as in Q3, despite a tougher base.

In the Office business, growth accelerated from 3% in Q3 to 6% in Q4. Revenues in Japan were down 5% in Q4 following a 6% decline in Q3. North America grew 19% after growing 14% in Q3. Revenue growth in the Nordics continued to be strong with revenues up 25% in the quarter under review.

The Professional Staffing business maintained its solid double-digit growth of 10% in the fourth quarter.

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

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

Thank you, Patrick. Good morning, ladies and gentlemen, and welcome from my side as well. I will begin with an overview of the P&L.

In Q4 '10, we had revenues of EUR5 billion, up 32% on a reported basis, and an increase of 17% organically. The gross margin was 17.9% in Q4 '10, up 30 basis points compared to the prior year. On an adjusted basis, and organically, the gross margin was down 50 basis points year over year.

For better comparison, we adjusted the fourth quarter of 2009 for the positive impact on gross profit of EUR14 million from the reassessment of accruals in France, and for the negative impact on gross profit of EUR7 million due to a sales tax accrual in the UK. As well, we adjusted the Q4 '09 SG&A for the negative impact of EUR30 million related to restructuring costs.

We also adjusted Q4 '09, for the impact of the change in the French business tax law of EUR15 million on cost of services, and EUR1 million on SG&A. SG&A was up 19% in Q4 '10 compared to Q4 '09.

Organically, adjusted, and before integration costs, SG&A increased 4% compared to the same period last year.

The Group's EBITA was EUR211 million, plus 43% on an adjusted basis and organically. Excluding EUR12 million integration costs, EBITA was EUR223 million, an increase of 51% adjusted and organically. The margin was 4.5%, up 110 basis points before integration costs, and on an adjusted basis. Net income was EUR141 million in the quarter under review.

The Group's gross margin was 17.9% in Q4, '10, up 30 basis points year over year, and down 50 basis points organically and adjusted. For better comparison, we adjusted Q4, '09 to reflect the reassessment of the accruals in France, and the UK sales tax accrual related to prior years, which had a combined positive impact of 20 basis points on the prior year's gross margin. We also adjusted the prior year's figure for the change in French business tax law, which had a 40 basis points impact.

The Temporary Staffing business had a negative impact of 30 basis points on the Group's gross margin in Q4 '10. Since Q1 '10, the Temporary Staffing margin is fairly stable.

The Permanent Placement business positively contributed to the Group's gross margin with 20 basis points in Q4. Our Perm revenues were up 44% organically in the quarter under review.

Our Placement business had a negative impact of 40 basis points in Q4 '10 after negatively impacting the Group's gross margin by 50 basis points in Q3 '10.

Acquisitions had a positive impact of 60 basis points in the fourth quarter, reflecting our increased exposure to Professional Staffing for the acquisition of MPS Group.

Now let me discuss in more detail how our cost base developed in the fourth quarter.

We continued to maintain strict cost control throughout the quarter, despite strong revenue growth. SG&A increased by 19% on a reported basis compared to the prior year's fourth quarter. Organically, and when adjusting last year's Q4, SG&A increased by 4% before integration costs.

On an organic basis, the number of FTEs was up 3% compared to last year, whereas the number of branches was down 5%.

Sequentially and in constant currency, SG&A was up 4% before integration costs, partly due to seasonality.

FTEs increased by 1% sequentially, mainly due to hirings in emerging markets and in North America.

We continue to benefit from the structurally optimized cost base. We will keep a tight grip on costs going forward in order to achieve attractive operating leverage. On the other hand, we will continue to invest where growth is strongest, but will evaluate which ones carefully with our value based approach.

Moving on to the balance sheet.

At the end of the quarter we had cash and short-term investments of EUR554 million. DSO were 54 days in '10 compared to 53 days in '09. Goodwill and intangible assets amounted to EUR3.9 billion at the end of December '10. Compared to the end of '09, goodwill and intangible assets increased by EUR892 million, primarily as a result of the consolidation of MPS Group.

Adecco's shareholder equity was at EUR3.6 billion at the end of December, up EUR453 million compared to the end of '09, driven by the '10 net income of EUR423 million, as well as currency fluctuations, partly offset by the dividend payout.

Turning to the cash flow statement.

The operating cash flow generated in '10 amounted to EUR455 million compared to EUR477 million in the prior year. As a consequence of strong growth in revenues, working capital needs increased in '10 compared to '09. Nonetheless, we were able to generate a solid operating cash flow during the period.

In the fourth quarter of '10, we generated an operating cash flow of EUR251 million, nearly double compared to the fourth quarter of '09. Cash flow from investing activities was impacted by the purchase price consideration for MPS Group. The amount paid for MPS in January '10 amounted to EUR831 million, net of cash acquired. In addition, we invested EUR105 million in CapEx in 2010.

Included in the financing activities of the year '10 is the repayment of the zero-coupon convertible bond in the amount of EUR457 million. In addition, financing activities include the payment of EUR91 million of dividends in 2010.

Net debt at the end of December '10 was EUR751 million, an increase of EUR641 million compared to the year ended '09. The increase in net debt was mainly a consequence of the purchase price consideration for MPS Group.

And finally, I would like to update you on our financial guidance for 2011.

The Q1 '11 tax rate is expected to be 33%. We are planning for CapEx of around EUR100 million for the year 2011. Interest expenses are expected to be around EUR65 million for 2011, excluding interest income. Our corporate costs are expected to be approx EUR85 million. And finally, amortization of intangible assets is forecasted at EUR55 million for 2011.

Please note that MPS has been included in the results of the Adecco Group since February 2010. Let me also inform you that as of January 1 2011, we changed our reporting structure. Since the Outplacement business, operated under the brand name Lee Hecht Harrison is a global business, and it's also managed as such, we will report it as a separate business.

Lee Hecht Harrison has substantial business in the US and, to a lesser extent, in France. [For all] other countries [if they] represent a minor portion of the results.

When we publish the annual report 2010 on March 18, we will also provide you with the 2010 restated figures based on our new reporting structure. This information will be available on our website under investor relations section, or get in touch with investor relations directly.

With this, I hand back to Patrick.

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

Thank you, Dominik. Ladies and gentlemen, let me finish with the outlook for our business.

In January, our revenues increased 17% compared to the prior year, organically and adjusted for trading days. The amount continued to be very healthy in France and North America, our two main markets, where the pick-up in demand already started well over a year ago.

Growth also remained strong in Germany, Italy, Benelux, Switzerland and the Nordic countries. Japan returned to positive growth in January this year.

Based on these developments we are confident on strong top line growth in the months ahead. But, of course, we are running against tougher comparables.

We believe that the environment will stay favorable for our industry in 2011. Permanent jobs will be created, but only enough to cover new entrants into the labor market. Unemployment will likely remain at high levels in most developed economies. We expect that most economic growth and activity will be covered by flexible labor.

In this environment, our focus remains on profitable revenue growth, achieved with price discipline and strict cost control.

Finalizing the integration of MPS this year is one of our main priorities. And we will take advantage of the good business conditions, and invest where growth is strongest; but we will always evaluate returns carefully in line with our value based approach.

The strong improvements in the EBITA margin in 2010 is evidence that the structurally improved cost base is paying off. With the good results achieved in 2010, and the strong start into 2011, we continue to be well on track to reach our EBITA margin target of over 5.5% mid term.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. (Operator Instructions). Kean Marden, RBS.

Kean Marden - *RBS - Analyst*

I've got a couple, but I'll try and keep these brief. Obviously, your business has a lot of tailwinds benefiting it going into 2011. One potential headwind, I suppose, for the customer base is commodity price inflation, including particularly oil prices. I'm just wondering how you would characterize the initial behavior of your client base to those types of headwinds. Do they freeze hiring in an effort to basically sweat assets and the labor force more aggressively to maintain margins, or do they embrace Temp to a greater degree?

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

You're going to ask your other questions first, or --?

Kean Marden - *RBS - Analyst*

However you want to play it, Patrick. Do you want me to ask them now, or later?

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

Maybe ask all of your questions now, and then --

Kean Marden - *RBS - Analyst*

Okay. In terms of France, if you were flagging, if the math is correct -- I think effectively you're flagging here potentially a 70% pass-through in France from the change in the maximum gross margin hit; whether you can confirm that.

And then finally as well, if you can possibly give us, Dominik, the January trading data by country, that would be helpful.

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

Can you say what the last one was?

Kean Marden - *RBS - Analyst*

You've given us January at Group, and you've given us for France, but if you have any other main territories that you can share with us, that would be very helpful.

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

So on your first question, at this moment we don't feel any negative push-back from our customers. On the contrary, generally speaking, like I said, our customers want to go for higher penetration of temp labor in their total workforce, and going forward, this will be the case.

As far as the inflation issues are concerned and the commodity pricing, it's true there has been a sudden increase in the last couple of weeks, but don't forget that we are still far off the peaks that we have had two years ago. So I would say -- I would not see that as an issue, certainly not for our industry.

On your second question, indeed, it's the case that we want to pass on minimum two-thirds of the negative effect of the change in the subsidy system in France. We estimate the effect of 90 basis points and the effect over the year should be 30 basis points negative for us.

Now here I would like to add that there's got to be a difference from one quarter to another, whereas before, the subsidy system was more pushed into Q1 as a benefit. It's now more pushed into Q4. I don't want to go into more detail here because it would lead us too far, but there's got to be some seasonal differences in the way the subsidies comp in.

Kean Marden - *RBS - Analyst*

So you're flagging here that the impact is potentially more weighted towards Q1 and Q2?

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

Yes, that's true.

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

That's true for two reasons. One is the seasonality; secondly also the price increases, they start. We are well on track but, of course, they're becoming clearly better in the second half of the year.

So now regarding the exit rates, we will not disclose here it for all the countries, but the major ones; and there were already also mentions of France, 20% in [Jan]; North America, excluding the Outplacement business, 18%; Germany close to 40%; and January is the 17% adjusted for trading days in line with the Q4 growth of 17%.

Kean Marden - *RBS - Analyst*

That's great. Thanks very much for your help.

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

Next question, please?

Operator

Marc Zwartsenburg, ING.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

A question also regarding the payroll tax. You said 30 basis points for the full year. It seems a bit better than what the competition is saying. Is that driven by your first indication and talks you had with clients in January and February?

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

Marc, it is the case. We've looked, of course, through the totality of our customer list. For our retail customers, it has been passed on from the beginning of the year. For our larger customers, of course, this is based upon a negotiation. But we are very firm that we're going to push this through first two-thirds. As you know, we are the clear market leader in France, and we should set the example, and that's what we're going to do.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Will we see any impact on your top line, because in January, you're still strong?

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

You know that you have (multiple speakers).

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Let go of some contracts or not?

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

Please consider this also in the way -- we're not talking here about a major increase here. 90 basis points/100 basis points, of course, this is an increase, but we're not talking about a major increase, and this is for the whole labor market. So that's also for the fixed employees of our clients, so I think all clients should understand this.

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

Regards of the assumption, Marc, that everybody will do this, this has also been announced by our colleagues, and we're certainly going to set the example, as I said.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. Then another question on the restructuring costs you took in Q4. Can you give a bit more flavor what the extra costs of what you're going to do there; what it should save?

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

You mean now the --?

Marc Zwartsenburg - *ING Financial Markets - Analyst*

The EUR12 million.

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

The EUR12 million. So basically, this was -- EUR8 million was related to the US, and EUR4 million related to the UK. And, of course, in the US, we are now in the most important part, because we're just moving the front office systems together. We started with the new branding. This is part of the initial plans. We have, of course, given the fact that we move front office systems together, we have some [degradation] on systems which we don't use any more, so a lot of this is also non-cash items of this piece. But the restructuring costs into Q1 will significantly slow down.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Yes, and shall we also see in Q1 then a potential more cost savings coming in from the restructuring, also because of branches shut down so that your SG&A in Q1 remains rather flat?

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

If we look to the sequential development of our cost base for the whole Company, before integration costs, it will increase sequentially really low single digits as we have to hire here and there some people; like in Germany, like in the emerging markets.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. And then a final one on your guidance on your net interest. Saw that you kept it stable versus your guidance for 2010. Can you give a bit more flavor there why it's not coming down, because you're deleveraging?

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

This is only the interest expense line. So the interest income is not included. It is only the interest expense. And since the gross debt is similar, we have the same interest expense more or less. The interest income is not included in this matter.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

But you will deleverage this year?

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

That's the case, but you know if you have bonds outstanding and they are running, you have to pay the interest expense on it.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. And then the final one; the impact of the one-off costs on Q4 for Japan; could you give us a number?

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

It is -- let's say it is --

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

It's a couple of million.

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

Yes, a couple of million.

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

It's a couple of million, Marc.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay, thank you.

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

Next question, please.

Operator

Andrew Grobler, Credit Suisse.

Andrew Grobler - *Credit Suisse - Analyst*

Three questions from me. Firstly, on Japan, you noted the outsourcing contracts are now up and running. What is the likely margin for those contracts relative to the rest of your business in Japan?

Secondly, in the UK, you noted Perm was very strong in Q4. What is the situation with the other part of the business with the Temp areas? And what is the key driver for the weakness there?

And then thirdly, just on Outplacement, at what stage do you think that will bottom out and will get to some level of sequential stability?

Thanks very much.

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

Andy, I will take your second question on the UK, and Dominik will take your first on the outsourcing contracts and on the Outplacement.

On the UK, our focus in 2010 was clearly on the integration. As I said in the presentation, we even slightly exceeded the targeted synergies of EUR13 million. I hope you also see that in the UK that with 2.1% return on sales, before integration costs, we are the most profitable one of the major players there.

So our focus is on profitability, and we clearly stay on profitability, and indeed, our results in Perm are very good. We also feel that that we are outperforming the market there with an increase of 43%.

So all in all, our focus also in the next couple of quarters you have to expect to be on profitability and not so much on gaining market share, because that's what we should not do in the UK.

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

And, Andy, [thus] we can come to the first question regarding Japan, and EBIT margin of this contract is pretty similar than whole Japan, so clearly about 5%. Maybe the gross margin is a little bit lower than Japan, but you have to see this outsourcing contract has a volume of 4,000 people, so you have -- of course, there clearly scale effects and you can do this with very low cost [of sales]; but very solid margin, so profitability-wise, this is a very good business.

When we look to the Outplacement business, we have to differentiate between the US and Europe. And the recent trends in the US, it seems -- I would say it seems it's not yet fully there. It's started to bottom out, at least the last couple of months, and also the outlook which we have until April seems there is a kind of bottoming out, but it's too early to say, is it really the trough or not besides the seasonal impact in Q3. But we're not seeing a lot of pressure any more in the US.

So in Europe, as the Outplacement business recovered later, and went also later down, there we have not yet the trough. But as you know, our biggest piece is the US.

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

And I just would like to add there, Andy, that you might have noticed that this business is still very profitable for us; that we made this model very variable over the past couple of years. And so despite the big drop in Outplacement revenues, we still have an EBITA margin of above 30% in the US.

Andrew Grobler - *Credit Suisse - Analyst*

Sorry, above 30% in the US?

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

In the US.

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

Yes, in the US. 30%.

Andrew Grobler - *Credit Suisse - Analyst*

Okay, great. Thank you very much.

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

Next question?

Operator

Konrad Zomer; Berenberg Bank.

Konrad Zomer - *Berenberg Bank - Analyst*

Three questions, please. First, on the Outplacement business. You mentioned in the press release strongly double-digit EBITA margin. You just said above 30%. Can you give us what the impact on your North American EBITA margin will be if you go to the new reporting structure? Because I don't think we know the absolute size of the Outplacement business in the US?

Second question, you referred to it earlier, but I'm still looking at something like EUR8 million of integration costs for 2011, possibly for Q1, related to MPS. Is that a number that's been outdated, or is that still applicable?

And the third question, could you tell us what the market situation is in India, how many temps you are placing there? Is that way above 100,000? What's the situation with wage inflation? Just a little bit more color on the Indian market, please.

Thank you.

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

Konrad, I will take your third question on India. Indeed, we are placing well above 100,000 people. We also didn't see a drop in salary, which is usual in most other markets. So it continued to be well above 100,000, and wage inflation is between 8% and 12%.

On the Outplacement business, Dominik?

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

So if you look to the EBITA margin in the US, if we exclude the Outplacement business, we would have an EBITA margin of 5.2%, and this is excluding the Outplacement business and before integration costs.

Konrad Zomer - *Berenberg Bank - Analyst*

Right, okay.

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

And then you had one more question?

Konrad Zomer - *Berenberg Bank - Analyst*

Yes, on the integration costs for MPS that we can expect in Q1. I for some reason have EUR8 million in my numbers. I just wanted to check.

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

(Inaudible) that we had EUR12 million in Q4. This was the peak. And I think a fair assumption is the half of it.

Konrad Zomer - *Berenberg Bank - Analyst*

And will that be Q1, or will that be full year '11?

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

It will be Q1, but it should really then slow down.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay, thank you.

Operator

Alain Oberhuber, Mainfirst Bank.

Alain Oberhuber - *Mainfirst Bank AG - Analyst*

Two questions; first, could you elaborate a little bit on why you are getting so positive now that the penetration rate will exceed even 2007 and 2008 levels, to get a little bit of flavor on it?

And again, just maybe on the US; it is -- the growth momentum there, is it mainly because of the Office, of the white-collar level?

And the same question is on France; is the strong momentum currently more on the blue collar? Maybe also if you could help us on that side, please.

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

Alain, on your first question on the penetration rates, indeed, we are positive that we will exceed those numbers, and this is based upon the feedback that we are getting from our customers. Of course, we are not yet at the penetration rates in the countries where we were in 2007/2008. You'll recall that we have lost 27% in our revenues in 2009, so if you start from 100% you're at 73%.

Okay, we are increasing now for the year at 12%, so we're above 80%. We still have to grow more than 20% on our organic basis in order to achieve our own peaks. But with the 17% that we are showing in Q4 and the similar rate at the beginning of this year, we are confident that we will achieve that and then go above it, and that is indeed based upon feedback that we are getting from our customers that going forward they really want to have a higher part of their workforce flexible.

Now as far as what is driving the growth, it's mainly indeed the Industrial. You have heard in the presentation it came down in the US from 40% to 30%. In France, it's still at similar levels, so it's the Industrial that is growing it.

Now also, the Office business in the US is now at 18%, so that is there also now picking up.

So it's both, but it's still the Industrial business overall that is growing, or that is really driving the growth here, which says that we are still I would say rather early in the cycle, because if you see that in Q3 with the 24%, we're doing now 25%. And almost similar revenues in Q4 and Q3 where normally Q4 is always lower than Q3, the pick-up is still there. And we see that also continuing into beginning of the year.

Is that okay?

Alain Oberhuber - *Mainfirst Bank AG - Analyst*

That's okay. Just an add-on question on the goodwill for Dominik. On the acquisition you showed the cash flow of EUR831 million. Could you tell us how much was goodwill and how much intangible assets out of this EUR831 million?

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

Let's say the intangibles were roughly 15%, and then a big piece was the goodwill, around 80%. And then you have the remaining piece of some fixed assets which you also buy there.

Alain Oberhuber - *Mainfirst Bank AG - Analyst*

Okay, thank you very much.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

Could I ask -- start by asking about the US? The one thing I was a little bit surprised by was that, excluding MPS, I think your pre-existing IT staffing activities were down minus 5% organically. Just wondered if you could explain what happened there. And then whether you could actually give us the organic growth of MPS in the US in Q4.

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

Jaime, I hope you're also looking at our overall result in the US where our --

Jaime Brandwood - *UBS - Analyst*

Absolutely, yes.

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

Our sales growth is 21% with a 5.1% return on sales after integration costs. So even if I say it myself, I think we are the most profitable there.

But our organic growth in IT is indeed minus 5% in our former Ajilon business, because this business is more exposed to the Government. And you know as well as in the UK as in the US, the Government is cutting back heavily. So we lost two major clients there. We are aware of that. But we are going after profitable business.

If you look at our leading brands going forwards, Modis, this was actually up 12%; and even there, we are aware that this might be somewhat lower than some other players. But as Dominik said, the focus has been on the integration. We integrated the front office and still doing so Q4/Q1. So that's certainly one of the reasons, and that's an internal reason where we are focusing on now.

But more important is that we are focusing in this business on retail customers, and thus the more profitable ones. The proof of this is that MPS generated clearly above 7% EBITDA margin in Q4, which in my opinion, is again higher than the competition.

Jaime Brandwood - *UBS - Analyst*

And Modis as a whole, the organic growth in Q4 -- sorry, not Modis, MPS as a whole, including some of the other stuff that MPS does in the US, what was the organic growth in Q4?

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

If you look to the different businesses, so the IT business is up 12%, former MPS, the finance business, former MPS and legal business up 16%; the engineering business is up 32%, and then the healthcare business is up 16%.

Jaime Brandwood - *UBS - Analyst*

And then just on Permanent recruitment; I don't know whether there was maybe a typing error in the press release. I thought I heard you say, Dominik, that Perm globally was up 44% in Q4. Is that right?

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

That's exactly right. It's not a typo.

Jaime Brandwood - *UBS - Analyst*

Because in the press release, I think it says 24%?

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

No, no; in Q4 --

Jaime Brandwood - *UBS - Analyst*

I've got the press release in front of me.

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

Maybe this is for the full year, but --

Jaime Brandwood - *UBS - Analyst*

Oh, right; okay. Yes, sorry it's for the full year. Okay, so looking at that plus 44% and the acceleration there, so clearly, you've seen a bit of acceleration in the UK. Can you give us a little bit of the Perm disclosure for some of the other main regions that have Perm exposure in terms of Q4 versus Q3?

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

If we look to the growth rates in Perm, they're looking very healthy. So we had -- in Q3, we had in France 17% growth. Now in Q4 it was 20%. The UK accelerated from the 38% in Q3 to 43%. And then the US, which is why it's important to our market 22% in Q3; now 29%. Emerging markets, they decelerated a little bit from 71% in Q3 to now 62% in Q4.

Jaime Brandwood - *UBS - Analyst*

Yes, still pretty healthy. Okay, that's great. Thanks very much.

Operator

Toby Reeks, Merrill Lynch.

Toby Reeks - *BofA Merrill Lynch Intl. - Analyst*

I've got the traditional three as well. The first is, you've indicated you're going to exceed the synergies for MPS, so about EUR25 million -- of the synergies, which were supposed to be EUR25 million. Can you give us an idea of how much you think you're going to exceed that target?

The second is just a quick one on the buyback. You're obviously buying back, or you may buyback 2% of shares. Is there any chance those shares will be cancelled, or do you think they're more likely to go out as options?

And then finally, on the SG&A, I think you said sequentially you're looking for growth in Q1 of low single digits. I'm assuming that's a percentage growth.

And the other point is, will that seasonal effect, which obviously made the cost rate a bit higher in Q4 unwind as we go into Q1? And if so, by how much?

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

On the cost base, the -- indeed, there will be a very slight increase, very low percentage point Q1 over Q4, and that's because we are doing selective hirings in high growth markets like, for example, Germany, where we said in January we are close to 40% exit rate in the Industrial business in the US and, of course, also in the emerging markets. But you have to account here for a very low percentage point.

On the buyback of the shares --?

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

This is -- when we say it is cost guidance, it is before integration costs.

And now regarding -- your question regarding the synergies, so we are very comfortable that we achieved more than the EUR25 million because we are on a very good track and the synergies coming in very well. I think it makes now no sense to make a new target. It will clearly be above. Will be massively above? No, but it will be clearly above.

Then regarding the shares, and we have today close to 8% treasury shares. Under Swiss Law, we can hold up to 10%. As you know, we launched this mandatory convertible bond when we bought MPS and, therefore, this close to 8% shares are shares which will deliver when this mandatory convertible bond is due. But I think we can buy up to 10%. We will on an opportunistic basis buy the remaining 2% and hold these shares.

Toby Reeks - *BofA Merrill Lynch Intl. - Analyst*

Okay, and just going back to the MPS, I don't know if you told us, what was the synergy level you achieved in Q4 for MPS?

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

We did not disclose it. We said for the whole year we expect EUR25 million. Now we face clearly more than EUR25 million after the two years of integration, and we are there ahead of schedule, but we'll not start now to disclose on a quarterly basis the achieved synergies. They are ahead of schedule, otherwise we would have not raised the statement from EUR25 million to clearly above EUR25 million.

Toby Reeks - *BofA Merrill Lynch Intl. - Analyst*

Okay. Thanks, guys.

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

Thank you. Next question, please.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, good morning; two questions from me, please. First, can you come back on the French situation? It seems that you appear quite bullish regarding the demands, and it seems that you have been able to outperform the markets in January. So what are the key drivers behind, please?

And second, can you elaborate a bit more on pricing? And when do you expect the Temp margin, the Temp gross margin to improve, please?

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

If you look to January, it's always the starting month, so we have to be also a bit careful with the January data. I think the volume in the market in January was roughly up 19%. We show on sales a growth of 20%, so I would say pretty similar. When we talk about the pricing situation in France, it's now about to pass on the big majority of this [less] social tax rebate.

We are very active here, so it's not a price increase who leads to higher gross margin; it's rather a price increase to basically secure that our Temp gross margin is maximum negatively impacted by 30 basis points. We're working here very actively with our clients in order to pass this on.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, but basically, when do you believe that it will be possible to start to increase prices for the Temp business?

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

If you look to France, 85% of our business is Industrial business. And if you look to the skill set, I think in France, in the short term, it's really about to pass this on, because I think to really clearly increase pricing, which leads to higher Temp margin in France, you need more scarcity, or you need scarcity, and we're not foreseeing scarcity in France in the short term.

Nonetheless, it's the time to increase the prices to cover this additional or less social tax rebate. And the clients are in the same situation. They have the same situation. They have also less of tax rebate, so they understand it, and we have to do this now.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, and lastly, if I may, can you give maybe some indication in terms of working capital for 2011?

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

We assume more or less stable DSO. We reduced our DSOs since we introduced [EBA] by six days. And if you assume in your model more or less stable DSO, I think it's a good assumption.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, thank you very much.

Operator

(Operator Instructions). Teun Teeuwisse, ABN Amro.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

A couple of questions left, and still one on the French subsidies. How dependent are you on price discipline in the market, and how disciplined do you think that the market will be in France on this?

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

Let's say this is oligopolistic market. I think that this is not a Temp increase --for the [temporary increase], it is an increase for the whole labor market. And I think that all people take this serious and take this into account.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Okay, because do you think that the French market is disciplined on pricing right now?

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

We have seen the Temp gross margin stabilizing since the beginning of the year. As Dominik said, we don't expect now the Temp gross margin to increase because the environment is still not there for that, but it certainly will not down.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Okay, and then a question on Germany. I read in the press release that Engineering and Technical is now growing by 16% in the fourth quarter. It was 21% in first quarter. Why is growth slowing down already there?

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

As I say, first of all, Teun, you have to see there is a trading day adjustment which is slightly negative. That clarifies not the whole difference but it clarifies a part of it. And then you have to see that we had some takeovers of people, and in Engineering there is also some scarcity. So this we see. We see only in certain pockets of the business scarcity, but for sure for the German engineer, there is scarcity. Therefore, the growth slowed a little bit down, but I'm confident for the growth rate for this business and, of course, we will increase or prices and invest part of this price increase also in higher wages to attract people into the area.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Okay. So actually, the lower growth reflects that the business is doing quite well?

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

On the demand side, for sure, yes.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Okay. And a final question; in your outlook, in your press release, you mentioned that permanent jobs will be created, but just enough to cover a new entrants into the labor market. It seems like that's a bit of a light outlook for Permanent Placement for 2011. Is that a correct read?

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

No, that's not what we mean. Teun, what we are saying here is that most of the jobs that will be created in 2011 will again be flexible jobs, and I'm talking net here because, of course, there fixed jobs created as well, but there are still more entrants. Until -- the aging curves are really turning now; 2015/2016, there are really more entrants into the market. And for this to cover, there has to be fixed jobs created. But you will see unemployment rates staying around, let's say in the US, around 9%; in Europe, around 10%. So the majority of the jobs that will be created are going to be flexible jobs.

And this has been the case in the past year as well. You have seen our Perm is up 77%. It's -- and it's in a similar environment. So we don't expect this now to go down because we're also starting from a very low base in Perm; that you have to take account that these growth rates seem -- are looking very spectacular, but it's on a very low base because the fallback was, of course, tremendous in 2009.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

That's great. And then one final question on the Outplacement, Dominik. You mentioned that US EBITA margin, excluding Outplacement and integration costs will be 5.2%.

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

It was; [and it would be], but it was in Q4.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Yes; in Q4, right. So it is a fair calculation then that Outplacement in the US is about [15%] of total?

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

It's a fair calculation. In terms of profit, it's [15%] of total is a fair calculation, yes.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

All right. Thank you very much.

Operator

Rajesh Kumar, HSBC.

Rajesh Kumar - *HSBC - Analyst*

Very strong performance on the Perm side, clearly. In terms of time to hire, what I hear -- what are you hearing in France, Germany and the US?

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

I know you're always asking that question, and like I already said in [my bit], there is really not a difference here, because as long as there is no scarcity, we don't see really that we have now a problem in the time to hire. To find candidates in today's markets is really easy, and we follow up on our fill rates, and our fill rates continue to be very high. So I really can't say more.

Rajesh Kumar - *HSBC - Analyst*

Thank you.

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

Okay? Ladies and gentlemen, I would like to close this call, and I would like to thank you for your attention and for your interest in our Company. For your information, Adecco will publish the online version of the 2010 annual report on March 18, and you will be able to access the report in the Investor Relations section of our website.

Our Q1 2011 results will be published on May 10. Thank you again. Goodbye, and have a nice day.

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

Thank you.

Karin Selfors - *Adecco S.A. - Head of Investor Relations*

Thank you.

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.