

Reinforcing our leadership in a changing world

Interview with Patrick De Maeseneire, CEO

How did your business develop in the major regions in 2014?

In North America, our revenue growth reflected the positive economic developments, accelerating during the course of 2014. In Europe, the picture was more mixed. Iberia and Italy grew strongly, despite still-weak GDP data, due in large part to the labour market reforms of the last few years. Germany & Austria progressively slowed, as geopolitical uncertainty impacted our clients in export sectors. France lagged behind the other European countries, with revenues even declining in the second half of the year, reflecting the country's deteriorating competitiveness. Despite this mixed background, strong operational execution allowed us to deliver improved financial results. We maintained our price discipline and cost focus, and we were able to deliver a 40 basis point increase in our 2014 EBITA margin excluding restructuring costs.

What are the prospects for your business in France in 2015 and the longer term? GDP expectations point to a slow but progressive improvement during the course of the year. Additional demand for labour will likely be fulfilled substantially with temporary workers. This would benefit us, as we are the largest provider of HR solutions in the country. In the longer term, to bring France back on a sustainable path of economic growth and reduce unemployment, reforms to increase the productivity and efficiency of the labour market are necessary. Our focus in the country remains on keeping our industry-leading profitability, tailoring our offering to the different client segments (small/medium/large), and further developing our dedicated organisation for permanent placement.

You achieved strong growth and profitability in North America. The penetration rate in the USA was back to the previous peak. How sustainable are these trends in 2015? Throughout 2014 we saw good top-line development, led by the economically sensitive Industrial business line. Encouragingly, the pick-up in growth became broader-based in the second half of the year, with Office turning positive and our Finance & Legal and Medical & Science business lines gradually accelerating. These trends point to a positive outlook for 2015. Looking forward, we do not see the current penetration rate as a ceiling for our industry in the USA. The talent crunch along with the demand for even greater flexibility from companies and workers means that the penetration rate of temporary workers is likely to increase in the USA and elsewhere.

Looking at your strategic priorities, what was the progress during 2014? On Engagement, we saw continued improvement in our employee retention rates and our Great Place to Work® rankings. In Information Technology, we started with the first country implementations of our global platforms after the investments of the last few years. On Professional Staffing & Services and on Segmentation, we continued to roll out our core brands, to add resources dedicated to permanent placement, and to implement tailored delivery models based on client size. It was an exciting year for our Business Process Outsourcing solutions, as the OnForce acquisition positions Beeline as a complete platform for managing a company's entire extended workforce. And finally, revenues in the Emerging Markets continued to grow in constant currency at a faster rate than Group revenues as a whole.

For the full year 2014, you achieved an EBITA margin excluding restructuring costs of 4.8%. What do you still need to do during 2015 to achieve your EBITA margin target of above 5.5%? Market conditions in 2014 were rather mixed but we delivered another strong performance – and with 5.3%, our best-ever fourth-quarter margin. This provides an excellent base as we head into 2015. In January and February this year, revenue growth in constant currency and adjusted for trading days

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showed a clear pick-up compared to the end of 2014. On gross margin, we are rather happy with the development and we see possibilities for further improvement in 2015. And we will maintain our focus on tight cost control, while at the same time investing selectively where we see organic growth opportunities and where productivity is already at a high level. Given our strong profitability in Q4 2014, our good start to the year, and the positive outlook, combined with the continued good progress on our six strategic priorities, we remain convinced that we will achieve our EBITA margin target of above 5.5% in 2015.

You have completed two share buyback programmes since July 2012 and launched a third that will take the total spend to EUR 900 million. By prioritising share buyback programmes over acquisitions, don't you think you might be missing out on some good opportunities? At present, our primary focus is to deliver on our strategic priorities, which we think is best served with an organic approach. In both general and professional staffing, we already have leading positions in the major markets. And the industry is so fragmented that we think there is no such thing as a 'not-to-be-missed' opportunity. In Solutions – comprising our Business Process Outsourcing and Career Transition & Talent Development businesses – we do occasionally see opportunities for bolt-on acquisitions where 'buying' is more advantageous than 'building', such as with OnForce in 2014.

New technology platforms and tools are emerging that aim to directly connect employers and potential employees. What is your assessment of the possible impact on your business? Most new technology platforms and tools provide a database of potential candidates to an employer. There are of course many more steps from this point to making a successful placement, and we believe the human touch remains crucial. Hence, we see these kinds of tools as one way for us to make our own candidate sourcing more efficient and effective. A key factor in our overall IT strategy is to best position the Company to embrace opportunities and to mitigate any threats resulting from advances in technology.

In January 2015, the Swiss National Bank unexpectedly announced that it would discontinue the minimum exchange rate of CHF 1.20 per euro. What is the impact on Adecco?

The impact on Adecco is modest. As our financial results are presented in euro, a stronger Swiss franc will have a translational impact on our reported profits. In our corporate headquarters in Switzerland, approximately 70% of our costs are incurred in Swiss francs; a stronger Swiss franc will drive an increase in these costs when expressed in euro. The negative impact of this on the reported profits of the Group will be partially, but not fully, offset by the positive translation effect on the profits of Adecco Switzerland. Besides this impact on our profits, the other main financial effect will be on our reported net debt, which will increase in euro due to the translation effect on our three Swiss franc bonds and also due to cash outflows on some of our hedging instruments.

Agency work still represents just a small part of the total working population, only approximately 1% at a global level.

How do you expect your industry to develop looking forward?

Structural and cyclical factors should continue to support the growth of our industry. The primary structural driver is the fact that companies increasingly seek flexibility in their workforces, in particular in manufacturing environments. In addition, workers' preferences are also changing, with an increasing recognition and acceptance of the advantages related to temporary agency work. At the same time, regulation tends to develop in our favour as our positive role in increasing the efficiency of the labour market and reducing unemployment becomes clearer. From a cyclical point of view, a large share of demand for additional labour is met by temporary work in the initial phases of recovery. As penetration rates are so low, even a small change can drive a substantial growth in the industry's and our own revenues.