Leading HR solutions on a global scale

Interview with Patrick De Maeseneire, CEO

2012 was characterised by tough conditions in most of Europe, while the US economy held up fairly well. How would you describe the past year for Adecco? Indeed, we had diverse revenue trends across the markets and segments where we operate. Business conditions in most European countries were difficult especially and unsurprisingly in Southern Europe, but also in France. Germany, UK & Ireland and the Nordics held up reasonably well, partly offsetting the decline in the troubled European countries. Trends in North America were positive with organic revenue growth accelerating throughout 2012 and also the Emerging Markets continued to grow at a double-digit rate. Globally this resulted in a revenue decline of 4% organically. To avoid equivalent drops in profitability, we continued to focus on price discipline and kept a tight lid on costs. Thanks to these efforts, we achieved an EBITA margin before restructuring and integration costs of 4.0%, only 10 bps lower than in 2011.

France is still by far your largest market. Developments there don't look promising. How do you see the situation for 2013? France will continue to be a difficult market in 2013. Our timing to combine the Adecco and Adia branded businesses under the single brand of Adecco was absolutely the right one. Since August 2012, after concluding the mandatory legal talks with the French Works Councils, we have been able to kick off the voluntary social plan. By year end 2012 more than 500 FTE employees had left the Company and the number of branches was around 10% lower year-on-year. Given the economic developments in France, it was absolutely key to address the cost base early. In 2013 we will undertake further actions to align the cost base to revenue developments.

You were behind the market in the US IT Professional Staffing segment for several quarters. Evidently you closed the gap to the market during 2012. Can we expect continued positive developments? We closed the gap to the market as of the third quarter 2012 and revenue growth continued to accelerate into the fourth quarter. At the same time, we have worked on broadening our client base to reduce dependency on certain sectors or client segments. It was important for us to maintain price discipline, knowing that it would take us longer to close the gap to the market. We continue to see good demand in the IT Professional Staffing segment in early 2013 and hope to further reap the benefits of our investments in the months to come.

Looking at your strategic priorities, do you have a particular focus on any of them this year? All six strategic priorities – Retention, IT, Professional Staffing & Services, Segmentation, Business Process Outsourcing solutions as well as the Emerging Markets – continue to be in focus and I am pleased with the progress to date. However, we are dedicating particular efforts to two priorities: the centralisation of our IT organisation and an improved segmentation of our client base. We are tailoring our offerings for each segment and improving our delivery models. Both of these important initiatives, if successfully executed, will further enhance our leading position in the HR services industry.

With the acquisition of DBM you strengthened your counter-cyclical Lee Hecht Harrison (LHH) business. Did this pay off in recession-struck Europe? With the acquisition of DBM we took the global lead also in the outplacement or Career Transition business. In 2012, LHH showed solid growth and strong profitability. We clearly exceeded our initial target, achieving synergies of over EUR 20 million and during 2012 successfully completed the integration of DBM. We see the benefit of the much improved geographic coverage through the DBM acquisition. During 2012, we gained new clients and contracts due to our enlarged global footprint. In Europe, with the exception of France, we have recently seen a pick-up in our business, while growth in North America is levelling off.

What are your expectations for 2013 and how are you positioning Adecco? 2013 looks to be another challenging year for Europe. On the other hand, we are cautiously optimistic for the US economy, although the fiscal uncertainty is probably holding back investment decisions to a certain degree in the short term. As to positioning Adecco in the current environment, given the nature of our business, we operate with limited visibility. Having different scenarios and relevant action plans is therefore the best way to deal with the different economic developments. In any case, we will continue to apply very strict price discipline and we will further optimise our cost base. At the same time, we will continue to take advantage of more favourable business conditions in North America and also in the Emerging Markets, where we still have ample room for growth.

Under these circumstances, is it realistic to assume that you will achieve an EBITA margin of above 5.5% in 2015? We have made substantial progress on what we can influence to achieve an EBITA margin of above 5.5%. We have improved our revenue mix towards more Professional Staffing. An improved business mix, coupled with price discipline, also led to a 50 bps higher gross margin at 17.9% in 2012 compared with 17.4% in 2011. Organically the gross margin increased by 30 bps in 2012. And we continued to excel at cost control. What we need to achieve our target is topline growth, to take advantage of the operating leverage that we have built into our business. Based on the good progress on our six strategic priorities and more favourable economic conditions expected towards the end of 2013, we are convinced we will achieve this target in 2015.

Some countries in Europe introduced new labour laws during 2012. In addition, the EU member countries were required to implement the EU Agency Work Directive as of the end of 2011. How is this impacting your business? There are still some EU member countries which have not yet lifted restrictions for temporary labour as mandated by the EU Agency Work Directive. In Germany, for instance, our industry is still waiting for the ban of temporary labour to be lifted in the construction sector. The equal pay principle has been implemented in most countries. In Germany, new collective labour agreements (CLAs) were negotiated with the Unions during 2012, providing a step-up in pay depending on the length of the assignment. Maintaining flexibility in the workforce remains at the core of our clients' needs. Elsewhere we have seen moves to relax labour laws, such as in Spain and Italy. In general, we welcome less rigid labour laws as this increases the competitiveness of countries, which in turn should lead to better economic growth – and to grow our business we need GDP growth.

Last year you launched a share buyback, increased the dividend pay-out ratio, enhanced the dividend policy and announced that no acquisitions are planned in the next 18–24 months. Are these all signs that your industry has reached maturity and future growth is indeed limited? No, not at all. The structural growth potential for our industry is unchanged. During the past years, we have made substantial acquisitions, and today we have a very good portfolio of businesses. Not only are we the leader in General Staffing, but we have also taken the lead in Professional Staffing and in the Career Transition business. That is why our focus is now fully on organic growth. Since we generate strong operating cash flow and in the absence of acquisitions, we opt to return cash to shareholders. We launched the share buyback, financed with long-term Swiss Franc debt at very favourable conditions, with the aim of maintaining a healthy net debt level on our balance sheet.

One of the major problems in the job market is the mismatch between demand and supply of work. This mismatch is based on skills as well as geography. How can Adecco help individuals and economies to overcome this problem? I think our main advantage is our global reach. We operate in over 60 countries and territories worldwide and have deep knowledge of labour markets. While there are barriers to mobility, such as language or cultural differences, economically difficult conditions and resulting high (youth) unemployment will further increase mobility of talent. While numbers are still low, trends are emerging in worker migration across Europe. During 2012, for example, we recruited engineers in Spain to work in Germany. In Canada, an international candidate mobility programme successfully addresses the skills gap and has been in place there for several years.