Focusing on our drivers of value

Interview with Alain Dehaze, CEO

How would you sum up 2015 for the Adecco Group and for you personally?

The year presented its share of high points and also some challenges. Overall, the Group performed well in 2015. We achieved organic revenue growth of 4% and a 5.2% EBITA margin excluding one-offs. These were below the level that we had been targeting, as economic growth did not accelerate as expected in our major markets. Despite this limited macroeconomic support, we achieved the highest EBITA margin in the company's history and confirmed our margin leadership versus our largest global peers. Our strong cash flow allows the Board of Directors to propose a CHF 2.40 dividend per share for 2015, a 14% increase compared to the prior year. On a personal level, it was of course an honour to be appointed CEO of such a great company. I am confident that we can deliver even greater success in the future.

"We achieved the highest margin in the company's history and confirmed our global margin leadership."

Looking forward at the medium term, what do you see as the drivers of your industry?

Shorter and more volatile economic cycles structurally increase the demand for flexibility in the labour force, for the economy as a whole, and for individual employers. Regulators more and more recognise the positive impact our industry has on society, increasing the potential markets that we can address. The ever-expanding impact of technology means that we have to continue developing our offering by combining bricks and clicks as well as innovating on the pure digital channel. Demographic trends mean we are all living longer, resulting in increased demand for Healthcare and Life Sciences services. And new trends are emerging in society: candidates increasingly seek flexible employment as a means to enrich their professional lives.

Against the backdrop of these drivers, are there specific areas you have in mind for business development?

We have defined six strategic priorities for the next five years in order to further develop our business. Those who have followed us for some time will see that we kept several of the previous priorities, because they remain highly relevant to us. Segmentation, Permanent Placement, Professional Staffing & Solutions, and Engagement continue to be priorities. We will accelerate their full roll-out across the entire Group in a structured and systematic way. A critical new priority is Digital, which expands our previous priority of Information Technology. We will continue the digitization of our current processes but we also need to go a step further and become a true digital innovator, bringing new and original solutions to our clients and candidates. And finally, with the newly introduced priority of Thought Leadership we aim to be the leading voice of our industry.

At the Investor Day in January 2016, you introduced your so-called '4P approach' – could you explain what it is?

The '4P approach' is our formula for success. Its beauty is that it captures and binds together the interests of all our stakeholders; at the same time it is applicable at all levels in our organisation, starting from the branch level up to the Executive Committee. The first 'P' is People. We are in a people business, and my 32,000 colleagues around the world give their dedication and enthusiasm each day to help around 700,000

"With people, purpose, performance, and profit we have set the foundation for future success."

people put their skills to work and to realise their ambitions. This links to our second 'P', which is Purpose. For the Adecco Group this has something of a double meaning: both our social purpose of contributing to society's prosperity through helping people find gainful employment; and also our clear strategic plans for achieving our objectives. The third 'P' is Performance, which is all about the operational focus to execute on our plans. We continue with our Economic Value Added (EVA) approach, driving revenues, EBITA margin, and asset efficiency. And when all of these are in place, the result is the fourth 'P' – Profit, by which we mean creating value for all of our stakeholders.

The Group has also set new financial targets. What are they and why did you choose them?

In 2015, our regular dialogue with our shareholders included detailed discussions regarding financial targets beyond 2015. We received many helpful insights, and a clear priority was to ensure that our new financial targets were aligned with long-term shareholder value creation. In a cyclical industry like ours, this means achieving strong financial performance through the ups but also the downs of the economic cycle. It also means balancing the key drivers of value: revenue growth, profitability, and cash generation. In order to achieve this, we set three financial targets, to be achieved on average across an entire economic cycle, including periods of economic expansion and recession. These through-the-cycle targets are: growing revenues organically at least in line with our main peers, at Group level and in each major market; improving our EBITA margin to 4.5–5.0% on average; and delivering an operating cash flow conversion of more than 90% on average.

"Our new financial targets are aligned with long-term shareholder value creation."

Since completing your latest share buyback programme you have not announced another programme; do you intend to maintain a shareholder-friendly approach to the use of your cash flow?

At our Investor Day in January 2016, we presented our framework for capital allocation. The priorities for us are investment in organic growth, commitment to our investment grade credit rating, and maintaining our dividend policy. We have said for some time that from 2016 we will again consider acquisitions should we see opportunities to create value. Any potential acquisition has to meet our criteria of broadening and diversifying our offering, allowing us to achieve synergies, and delivering a positive EVA within three years. At the end of 2016 we will review our financial position and at that point we will determine if we have excess cash to return to shareholders.

To conclude, what do you expect for 2016?

When it comes to discussing outlook, we should remember two important characteristics of our industry: a strong correlation with economic activity and limited visibility. The current consensus for 2016 GDP growth forecasts neither a strong acceleration nor a deceleration in our major markets. On this assumption, we expect our business to deliver moderate growth in 2016, and we will be focusing on all three drivers of value: revenue growth, profitability, and cash generation.