

Performing Transforming Innovating



Looking back on 2018, there is much for our colleagues around the world to be proud of. Significant progress was made in the transformation and digitalisation of the Adecco Group, as we continued to ‘Perform, Transform and Innovate’. The investments that began in 2017 and continued in 2018 are now starting to deliver positive results, laying strong foundations for 2019 and beyond.

In 2017, we launched our Perform, Transform, Innovate strategic agenda; a root-and-branch upgrade of our business, to leverage the possibilities of digital in HR solutions. It is a multi-year programme of investment and transformation that underpins our financial commitments: to drive true, structural growth, through the business cycle; to strengthen our margin structure; and to generate sustainable, strong cash flow.

2018 was the second year of this strategic journey, and it was a year of significant progress. The digital transformation of our core business has well and truly begun, and is delivering tangible benefits. Through the GrowTogether programme we are improving the client and candidate experience, and reducing our cost-to-serve, achieving the first EUR 50 million productivity savings in line with budget.

Our innovation agenda also took an important step forward with the acquisition of General Assembly (GA), adding capabilities in up/reskilling that strongly complement our other brands. With Lee Hecht Harrison and GA we are now uniquely positioned to address our clients’ urgent workforce transformation needs. And, combined with our existing training businesses, GA further positions us as part of the solution to rising talent scarcity, not just an intermediary.

We also met with some challenges during 2018. The economic growth environment in Europe, where the Group generates almost two thirds of its revenues, became materially less favourable as the year progressed. This led to a significant deceleration in Group organic revenue growth, which slowed from 6% (trading days adjusted) in Q1 2018 to minus 1% in Q4. And, unlike in 2017, when we were able to offset increased investments with strong operating leverage, it proved harder to offset a further rise in investment in 2018, given additional headwinds from regulatory changes in France as well as Germany, and disruption in our German general staffing business. As a result, EBITA margin excluding one-offs declined by 40 basis points year on year.

Overall, we might conclude that the business delivered well on the Transform and Innovate pillars of our strategic agenda but that we did not Perform always and everywhere at the level expected. Achieving the right balance between the strategic priorities is a key focus and we were therefore pleased that, after a more difficult first quarter, execution improved significantly. Despite the difficult external environment, our margin trend improved through the year, in Q4 delivering the first year-on-year margin increase in seven quarters, as returns on investments in the strategic programmes ramped up. This gives us confidence as we enter 2019.

OUR INVESTMENT STORY

Global megatrends are changing the world of work

Employees want to work when, where and how they wish, doing the work that matches their skills, interests and compensation needs.

Employers will employ workers to meet carefully defined needs, through a broad range of relationships across all skill levels.

The Adecco Group is taking the lead in this transformation

We are reshaping the world of work, reinventing how we deliver our services, and developing and acquiring new capabilities.

We provide innovative solutions that enable employers to flexibly manage their workforces and employees to flexibly manage their careers, while safeguarding security for all in the labour market.

New employment models bring exciting growth opportunities

We are the leading global provider of HR solutions but have only 5% share of our core market and less than 2% share of the addressable market for flexible and permanent HR solutions.

Strengthening and expanding our service offerings will allow us to grow revenues even if economic growth remains modest.

Higher value, lower costs, less capital will drive shareholder returns

By combining data, technology and talent, we increase our value to clients and candidates and strengthen our competitive position.

Digitising our processes reduces our cost-to-serve, and improves our capital efficiency. This will help us to expand our operating margin and generate strong cash flow.

Leveraging the workforce megatrends

The world of work is changing, shaped by multiple megatrends. In 2017, we identified six key trends – geopolitical & economic uncertainty; the gig economy; skills imbalances; the new demographic mix; automation, AI & machine learning; and digitisation, big data & analytics – that are driving change in how people live and work, and in the HR solutions industry.

The megatrends are behind several developments that create significant opportunities for the Adecco Group. Firstly, flexible working is becoming more popular almost everywhere around the world. Employers recognise that in a rapidly changing global economy, agility is key. Rigid models of workforce organisation are giving way to more fluid structures that emphasise having the right skills on demand. Meanwhile, individuals are seeking greater variety and autonomy, now often approaching careers as a portfolio of gigs, rather than a linear succession of long-term jobs. This suggests that the EUR 400 billion temporary staffing market and c. EUR 1,200 billion freelancer markets will continue to grow strongly over time. As an expert in flexible labour solutions, the Adecco Group is well placed to capitalise on this trend from a business perspective. We are also playing an active role in advocating change to social welfare systems, to better reflect the way people are working today, to guarantee security for all.

Talent scarcity is another clear outcome of the megatrends, as rapid technological progress and an ageing workforce combine to create substantial skills mismatches. This too plays to a core competency of the Adecco Group: we already help more than 100,000 clients find hard-to-reach talent across 60 countries and a broad spectrum of skills. These services are likely to remain in high demand as it becomes ever more challenging to find scarce talent.

We also expect the Group to increasingly become a producer of talent, rather than only an intermediary. For many years we have been helping prepare young people for the workforce (e.g. through the Global Apprenticeship Network [GAN] and our own apprenticeship solutions) and helping workers gain new skills as they progress through their careers. Through our VSN brand in Japan, we train hundreds of engineers every year, who then go on to work for our clients. And in 2018, we significantly expanded our re/upskilling capabilities with the acquisition of General Assembly (GA), a pioneer in digital skills education. With GA we are now helping hundreds of clients directly address digital talent shortages, by upskilling and reskilling their workforces to fill persistent talent gaps. With as many as 375 million employees¹ (14% of the global workforce) needing to switch roles by 2030, the need for reskilling is only going to rise, and the Adecco Group is uniquely positioned to help.

Digitisation, big data and advances in artificial intelligence are also transforming the staffing and recruitment industry itself, presenting opportunities to both enhance our traditional services and create new value-added solutions. The Adecco Group is taking the lead, with a comprehensive upgrade of its infrastructure and the launch of a suite of digital platforms and solutions. For example, during 2017, the Group created Adia, a mobile-first, end-to-end platform for employers looking for temporary staff for short assignments. Adia brings the Group's services to clients that could not previously be well served from a traditional branch-based solution, such as in the hospitality and events industry. Developed in partnership with Infosys, Adia illustrates how we are bringing together the best of the HR solutions industry with the best of the technology industry, to provide improved solutions for clients, candidates and associates. During 2018, we further expanded the Group's portfolio of digital solutions with the acquisition of Vetterly, an online talent marketplace that helps companies hire top tech, sales and finance talent.

Based on the megatrends, and given our ability to respond and adapt to the changing landscape, the long-term outlook for our industry and the Adecco Group is positive. However, we must not be complacent. We will continue to actively transform our business to strengthen our leadership position. Our long-term strategy will continue to build on the progress made during 2017 and 2018, to capitalise on the opportunities presented by the megatrends and to guard against the risks, allowing us to create more value for all of our customers and broader society.

OUR COMPETITIVE STRENGTHS

Some competitors

- Knowledge of complex labour regulations
- Ability to manage large contingent workforces
- Strong brand portfolio

Few competitors

- Global distribution (>100,000 enterprise clients)
- Rich workforce data assets
- Trusted on compliance & data security

Our unique assets

- Widest scope of end-to-end HR solutions (including up/reskilling)
- GrowTogether – a fundamental upgrade of our core solutions, driving differentiation and extending our cost leadership
- Most comprehensive portfolio of digital HR platforms

1. McKinsey Global Institute report

From a fragmented to a more consolidated industry

The Adecco Group is the global leader in HR solutions but we have only 5% market share in staffing and permanent recruitment, due to a long tail of smaller local competitors. Historically, barriers to entry have been relatively low, and larger players have not offered a sufficiently differentiated service, especially in the SME segment that comprises approximately 60% of the market. A local, branch-based delivery model also limited economies of scale.

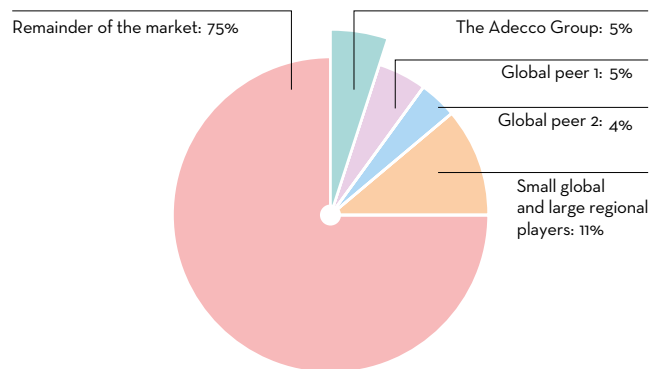
We firmly believe that the drivers of industry fragmentation are now reversing, and that the Adecco Group is well placed to expand its market share. By integrating more technology and digital solutions into our offering we are building differentiation versus traditional competitors. Technology is raising the barriers to entry, with smaller competitors less able to invest in the digital tools required to evolve their solutions 'beyond the branch', and to develop the omni channel delivery models that our clients, candidates and associates expect. Economies of scale are also inherently higher in an industry where online solutions and data-driven insights are becoming more important.

What about new entrants from the technology industry? While the HR-tech landscape is alive with companies with promising ideas, it is established HR solutions partners, such as the Adecco Group, that are most able to leverage new technologies for the benefit of clients and candidates. It is difficult to replicate our broad knowledge of complex labour regulations and customer needs in 60 markets globally. We also have extensive workforce data and deep B2B client relationships. Our ecosystem of brands and solutions allows us to provide holistic solutions to clients, across all of their workforce needs. These are assets that new technology entrants struggle to replicate.

Further, while technology can make certain transactional parts of our services more efficient, our clients need end-to-end solutions, which only begin at the point of the transaction. Ultimately, our solutions are about organising and managing people and the human touch remains very important. Technology is an enabler rather than a substitute.

Our experience is that technology players do not want to manage people. In fact, they already come to us for this. Rapidly scaling workforces is a different challenge to scaling technology, and it is a core competency of the Adecco Group.

DIGITAL AND RISING COMPLEXITY WILL ENCOURAGE ORGANIC CONSOLIDATION OF THE HIGHLY FRAGMENTED INDUSTRY



The Adecco Group is the global market leader with only 5% market share

The Group's digital evolution...

- increases economies of scale
- creates opportunities to differentiate
- raises barriers to entry
- allows access to new markets/segments

Strategy into action

We have a clear plan to leverage the megatrends to drive growth and profitability. The ethos of our strategy is Perform, Transform, Innovate. Perform means that we keep delivering growth in a cost-disciplined, returns-focused way, driving out underperformance and deploying our proven strategies of segmentation, Candidate and Client Portfolio Management (CCPM) and the PERFORM methodology, which translates a lean manufacturing approach to the office. By continuing to Perform, we generate strong cash flow to fund our investments and attractive returns to shareholders.

Transform means strengthening our core business, to improve efficiency and create greater differentiation in service delivery, to drive profitable market share gains.

Innovate means capturing new growth opportunities in attractive adjacent markets, for example with our digital solutions. It also means leveraging the strength of our unique ecosystem of brands to offer complete workforce solutions that help solve the talent challenges being faced by our clients and to support our candidates and associates throughout their careers.

The Perform, Transform, Innovate strategy is built around two major strategic initiatives – GrowTogether and New Ventures. Distinct programmes with complementary goals. They focus on driving more value for our customers, while improving the efficiency of our organisation. Behind these programmes, we have had two years of significant investment, which has impacted EBITA margin and limited earnings growth in the short term. Nevertheless, these investments are absolutely the right thing to do and will significantly strengthen the Group in the years to come.

We will continue to invest in 2019 but with returns on our earlier investments increasing, the strategic initiatives are expected to have a net positive impact on EBITA margins of approximately 25 basis points.

Transforming our core with GrowTogether

Our GrowTogether programme, launched in 2017, is at the centre of the Group's transformation agenda. Based on a detailed analysis of our operations, including time-and-motion studies in hundreds of branches and interviews with thousands of clients and candidates, we are reimagining the delivery of our solutions in the digital age, with customer-centricity at the heart. By changing the way we work, and leveraging new technology, our people are able to spend more time with clients and candidates, which is what ultimately drives our success.

The programme spans the full spectrum of our activities, with initiatives and tools focused on sales effectiveness, recruiting efficiency and middle- and back-office process optimisation.

GrowTogether is now scaling up and delivering real results in the markets where it is most progressed, such as the US, UK and France. In 2018, it delivered the first EUR 50 million productivity savings, in line with the target, and in 2019 we expect a further EUR 70 million savings. In addition to the cost savings, we are further differentiating our solutions, building a digitally-enabled offering that will support future growth.

Examples of successes in 2018 included the further roll-out of the 'Adecco & Moi' candidate mobile app in France. Now in use by more than 150,000 associates every month, it allows seamless management of assignments, removing the majority of manual processes and paperwork related to time-sheets, payroll and legal documentation. It thus improves associate engagement while also reducing administration in our branches. Our experience in developing the candidate app in France is now providing the blueprint for other markets.

Meanwhile, in North America and UK General Staffing, we rolled out a new, advanced Customer Relationship Management solution, consolidating multiple legacy platforms. Delivering faster and better quality candidate matches, and reducing administrative activities, this has significantly increased consultant productivity in our branches, driving robust margin improvement in the second half of 2018.

We were also pleased by the impact that GrowTogether is having on our Net Promoter Score, which in 2018 improved to 15.

A STRONG DIGITAL PORTFOLIO: ONLINE PLATFORMS AND SKILLS DEVELOPMENT

Digital Platforms

We have established leading digital platform businesses that focus on the three most relevant areas of HR solutions: Staffing, Permanent Recruitment and Freelance/Contractor.



Staffing

Co-created with Infosys



Permanent Recruitment



Freelance

Co-created with Microsoft

Digital Skills

The addition of General Assembly to our ecosystem is a game-changer.



Upskilling and Reskilling

New Ventures open attractive new markets

With New Ventures, we are creating solutions and providing services that are complementary to our existing portfolio and where we can build real competitive advantage. Our approach combines co-creation with leading technology companies, such as Infosys and Microsoft, scaling up existing internal projects and also value-enhancing buy-and-build acquisitions.

Over the course of the last two years, the Group has expanded its solutions portfolio, organically and via targeted M&A, to include leading platforms in online staffing (Adia), freelance (YOSS), digital permanent recruitment (Vetterry) and re/upskilling (General Assembly). These are high-value, high-growth businesses that already have a positive impact on Group gross margin, despite being still a small share of the total business today.

Each of the ventures is at a different stage of maturity but all have the potential to be meaningful contributors to Group profits in the medium to long term. Our focus is on building value, not short term profitability, which means we will remain in a net investment phase, as we scale up Vetterry and GA, and further develop Adia and YOSS.

We believe that we have a clear right to win in these new areas of the market, being able to draw on the experience and resources of our traditional businesses to scale faster. And the new ventures also help us improve our core business. For example, GA is already working with Lee Hecht Harrison, to evolve its leading career transition offering into a solution able to offer true end-to-end workforce transformation. We are also utilising technology in use at Adia to improve processes in the Adecco business, for example, relating to workforce scheduling and associate onboarding.

Leveraging synergies between our brands

The combined power of our businesses and brands is brought to life through our ecosystem. It sets us apart from the competition and stands out in the minds of our customers. It allows us to create customised solutions to meet our clients' and candidates' needs, throughout the economic and work-life cycles.

The ecosystem model provides unique synergies, efficiency and flexibility, as a convenient one-stop shop, delivering a truly 360° service offering. For example, co-ordinated through a single global advisor, a tech client can reskill its workforce with General Assembly, facilitate career transitions with Lee Hecht Harrison, build a bespoke project team solution through Modis, and receive support for all its general staffing needs from Adecco.

A future that works for everyone

In an uncertain and fast-changing world, shaped by technological advances and artificial intelligence, it is important not to lose sight of the humanity at the heart of every business' operations. 2018 saw the 70th anniversary of the Universal Declaration of Human Rights, and the universality of its values of equality, inclusiveness and dignity remain as relevant today as ever before. We believe as the world and the nature of employment change, it is important that the social and political environment adapt to reflect these changes, to ensure that nobody is left behind.

We believe that businesses like ours have a role to play in creating this change, lending their expertise and resources. As the global leader in HR solutions, we see it as our duty to set an example for sustainability and social value creation in our industry, and beyond. In 2018, the Adecco Group launched a new global sustainability framework. It sets us on course to fully integrate sustainability across all our brands and countries in the next few years.

Sustainability is a strategic choice about how we conduct our business and generate our profits. By interlinking the business with sustainability, we can better serve our long-term commercial interests and enhance our value proposition to our stakeholders, while respecting people and the planet.

Our focus is on those factors that are most material to us as a business and to our stakeholders, and where we can make the biggest positive contribution. Our vision is for everyone to have the right skills to gain, or maintain, access to the world of work. In response, we are training and educating more people than ever before, expanding our capabilities in up/reskilling, in-work training and apprenticeships. We also want to be the employer of choice for associates and colleagues alike, and to enable wellbeing, livelihoods, and the right balance between flexibility and security. This is what drives our advocacy for a new social contract for work in the 21st century. One that provides security for all and recognises the new ways of working that are becoming more and more common. By working together with international and national institutions to shape and guide policies and standards, we help expand opportunities for all employees and grow the prosperity of society as a whole.

OUR COMMITMENTS TO DELIVER BY 2020

Leading total shareholder return



Drive revenue growth

Accelerate structural organic revenue growth

Increase GDP multiplier (from 3x to 4x)



Strengthen margin

Our commitments

Drive sustained EBITA margin improvement

By 2020
EUR 250m p.a. productivity savings (100 bps as % of revenues)



Deliver strong cash flow

Maintain a progressive dividend policy

Achieve continued strong FCF after investments

Through the Adecco Group Foundation, we extend our positive impact, focusing on work-readiness for underserved populations and workforce vitality. Our flagship programmes, CEO for One Month and Win4Youth, highlight our commitment to these causes, and illustrate one part of how the Adecco Group positively contributes to society.

For us, this is not a one-off effort. Embedding sustainability in all we do is a journey and a long term process. We are committed to playing our part. We will continue to challenge ourselves, and others, to push boundaries and strive to be at the forefront of delivering better futures for all. By living up to our purpose and values, and mainstreaming them into how and why we conduct our business, we can and will be a driver of positive change in the world of work.

Looking ahead

As we begin 2019 we remain focused on achieving the right balance between the Perform, Transform and Innovate pillars of our strategy, to create more value for all our stakeholders.

Our core business is cyclical and we are therefore monitoring the economic outlook carefully. We illustrated in the second half of 2018 that we can be agile in adjusting our cost base to a lower revenue growth reality, and we will continue to do so in 2019. The diversity of our business also provides some protection, especially our counter-cyclical career transition business, Lee Hecht Harrison.

While the external environment is undoubtedly more challenging than it was 12 months ago, internally we are stronger, thanks to the significant progress made during 2018. We will continue to invest in our strategic initiatives during 2019 but we are now coming out of the net investment phase, with returns on earlier investments ramping up. The GrowTogether programme is reaching more parts of the business, in more countries, with an incremental EUR 70 million of savings

targeted in 2019, bringing the run-rate SG&A reduction to EUR 120 million per annum. This will add around 25 basis points to EBITA margin excluding one-offs, in 2019, all else being equal.

We will continue to help our customers, candidates and associates navigate, adapt and succeed in the changing world of work. We also remain committed to building an open and inclusive working environment for our colleagues, where trust and reward go hand in hand with hard work and achievement. We were very proud to once again be named in the top five best workplaces in the Global Great Place to Work® survey in 2018.

A focus on people and human interaction is at the centre of our business and at the core of our strategic approach. Our ambition is to marry social value with sustainable business to create a compelling driver of differentiation and innovation, and sustainable value for all our stakeholders.

Despite the current economic and geopolitical uncertainty, we begin 2019 optimistic about the future. Whatever the short-term trends, the investments that we have made, and continue to make, will leave us well positioned for the long term. By delivering Performance, Transformation and Innovation, we will support our financial commitments to our shareholders and our commitment to make the future work for everyone.



Alain Dehaze
Chief Executive Officer

DELIVER ATTRACTIVE SHAREHOLDER RETURNS WHILE INVESTING FOR THE FUTURE

Invest in profitable growth

Committed to investment-grade credit rating

Maintain progressive dividend policy with a payout of 40 - 50% and dividend per share at least in line with prior year

Exploit buy-and-build M&A opportunities

Return excess cash to shareholders