

25 July 2014

## USG PEOPLE

### 2Q14E: Weaker margin, still good fundamentals

SUPPORT SERVICES  
NETHERLANDS

CURRENT PRICE €10.06  
TARGET PRICE €14.00

**BUY**  
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	-14%	-18%	81%
Rel. AEX	-13%	-21%	64%
12m Hi/Lo	€ 14.10/5.50		
Bloomberg	USG NA		
Reuters	USGP.AS		
Market Cap	€ 781m		
Next corporate event			
Results 2Q14: 30 July 2014			
www.usgpeople.com			

FY/e 31.12	2013	2014E	2015E	2016E
Sales (€m)	2,270.0	2,375.3	2,529.7	2,656.1
REBITDA (€m)	82.5	108.7	131.5	138.1
Net earnings (€m)	-26.1	48.2	60.3	64.8
Diluted adj. EPS (€)	0.26	0.60	0.74	0.79
Dividend (€)	0.14	0.20	0.25	0.26
P/E	25.83	16.82	13.54	12.73
EV/REBITDA	8.57	8.83	7.13	6.67
Free cash flow yield	1.7%	2.7%	4.6%	4.4%
Dividend yield	2.1%	2.0%	2.4%	2.6%

Source: KBC Securities

USG People will report its 2Q14 results on 30 July before market, followed by an analyst meeting at 9:30am CET. KBCS is expecting sales of €580.4m (vs. €579.2m CSS), up 5.5% y/y organically. We expect a q/q decline of 120bps on the gross margin to 20.3%, resulting in €117.8m gross profit (vs. 20.4% and €118.2m CSS). Flat operating expenses at €98.1m compared to the previous quarter and €3.5m of depreciations make the REBITA come in at €16.2m or a margin of 2.8%, up 1% y/y (vs. €16.1m and 2.8% CSS). We expect no one-offs, making adjusted net income land at €6.8m.

## HIGHLIGHTS

- Holiday margin pressure.** With no pricing improvements reflected in the margins yet, the pressure from a relatively high amount of holidays in the second quarter has a negative effect on the gross margin, expected to decline 1.2% q/q to 20.3%. With guidance of fairly stable recurring operating expenses, the flat opex effect seeps through to the REBITA level, with the margin set to attain 2.8%, up 10bps q/q and up 1% ahead of last year. This REBITA figure is mainly supported by a pick-up in the Netherlands and France (CICE) compared to last year.
- Excellent operational leverage.** The light cost structure and improving top-line, see an impressive operating leverage come in once again. Incremental conversion ratios y/y are irrelevant (because of divestments and restructurings), but vs. Q1 we expect the recurring operating expenses to have declined as a percentage of sales from 18.1% to 16.9% and even to 16.1% in 3Q14E. With a q/q decline of €1m thanks to the United cost saving plan, our model foresees €5m of additional investments as from 3Q14E onwards.
- Investment case.** Although the margins will be somewhat under pressure in 2Q14E, we remain very positive on the outlook for USG. The company has the lean structure and leading positions in high-margin countries as Belgium and the Netherlands, necessary to realise strong returns. The company is currently trading at a discount vs. peers, while we think a premium is warranted given its favourable geographical and sectorial focus.

## ANALYSTS

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## GEOGRAPHICAL OVERVIEW

### The Netherlands (45% of sales):

- In the Netherlands, KBCS banks on 5.7% y/y growth towards €251m. USG was behind on market in 1Q14, stemming from a difference in segmentation vs. the ABU index and a weak USG Restart. With market growth standing at 6.9%, we pencil in a 3% growth for General Staffing, on the back of first signs of the SME recovery and a serious improvement in the medical segment, as reported by ABU (from -25.4% y/y in 1Q14 to -7% in 2Q14). Specialist Staffing enjoys a strong organic growth profile, but an end to this is expected on the back of harder comps (-10% in 1Q13 vs. -4% in 2Q13). We bank on a 9% growth rate in 2Q14 (vs. 16% in 1Q14). The well-performing late-cyclical Professionals segment is expected to realize 8% growth (vs. 5% in 1Q14).
- The Dutch REBITA margin is expected to attain 3.5%, up 1.2% y/y (higher than the 60bps y/y increase in 1Q14). First improvements in the SME and Professionals segment will positively impact the figure.

### Belgium (26%):

- The Belgian staffing market fiercely accelerated towards the end of 1Q14, but saw a decline in the last months of 2Q14. Based on the current information, we bank on market growth of around 5.5%. KBCS expects a y/y growth of 5.2% for Belgium, of which the bulk will come in at General Staffing, which is forecasted to grow 8%. Specialist staffing is set to grow at 3% y/y. The Professionals segment is still in the doldrums and set to record a modest 5% decline y/y (vs. -10% in 1Q14 and -16% in 4Q13). Total sales should amount to €149m.
- KBCS forecasts the Belgian REBITA margin to amount to 4.7%, up 40bps y/y. The y/y increase is lower than the one in 1Q14 because of the relative higher amount of holidays in 2Q14 vs. 1Q14 (5 vs. 1).

### France (19%):

- USG People can bank on an excellent management team in France and its presence in well-performing segments (mainly food sector) let us apply a 4.5% y/y growth (vs. 1% in 1Q14 and 4% in 4Q13), again ahead of markets.
- With slight improvement in pricing (strong focus on profitability) and the increased CICE impact vs. last year, we bank on a 1.2% y/y increase towards 4.0%.

### Germany (10%):

- USG People is coming from far in Germany, but should see another growth acceleration in 2Q14 at 5% y/y (from 1% in 4Q13 to 3% in 1Q14). Flat volumes due to scarcity should be offset by the CLA pricing effect on the top-level evolution, while the German business can still compare with very easy comps in 2013 result in total sales of €57m.
- We bank on a very modest 0.1% REBITA margin. Management stated that profitability in the German segment would be difficult to attain in 2Q14, while this quarter carries a lot of holidays too. We do expect the company to become profitable by the end of the year though.

## PEER ANALYSIS

Company	EV/EBITDA	EV/EBITDA	P/E	P/E
	'14	'15	'14	'15
Manpower	7.27x	5.91x	15.58x	14.03x
Adecco	10.10x	8.50x	15.04x	12.76x
Randstad	9.03x	6.93x	14.16x	11.43x
<b>Average</b>	<b>8.80x</b>	<b>7.11x</b>	<b>14.93x</b>	<b>12.74x</b>
USG People	8.49x	6.20x	13.42x	10.27x
<b>Discount / premium</b>	<b>-3.6%</b>	<b>-12.8%</b>	<b>-10.1%</b>	<b>-19.4%</b>

Source: KBC Securities

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## SALES BY COUNTRY

€ in millions	1Q13A	2Q13A	3Q13A	4Q13A	1Q14A	2Q14E	3Q14E
<b>SALES</b>							
Netherlands	233	237	255	256	245	251	270
Belgium	137	141	154	150	140	149	163
France	102	116	130	117	103	121	136
Germany	52	54	60	56	53	57	63
Others*	2	2	2	2	2	3	3
<b>TOTAL SALES</b>	<b>524</b>	<b>550</b>	<b>599</b>	<b>580</b>	<b>543</b>	<b>580</b>	<b>635</b>
<b>SALES GROWTH</b>							
Netherlands	-9%	-8%	-2%	+2%	+5%	6%	6%
Belgium	-13%	-8%	-5%	-2%	+2%	6%	6%
France	-11%	-8%	0%	+4%	+1%	5%	5%
Germany	-18%	-9%	-2%	+1%	+3%	5%	6%
<b>GROUP SALES GROWTH</b>	<b>-9%</b>	<b>-8%</b>	<b>n.m.</b>	<b>n.m.</b>	<b>4%</b>	<b>6%</b>	<b>6%</b>

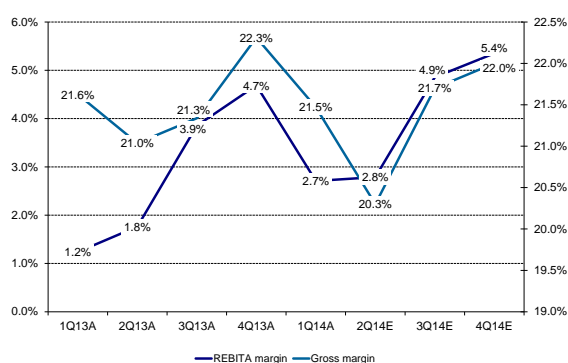
## REBITA BY COUNTRY

€ in millions	1Q13A	2Q13A*	3Q13A	4Q13A	1Q14A	2Q14E	3Q14E
<b>REBITA</b>							
Netherlands	6.2		11.1	18.4	9.8	8.8	14.8
Belgium	5.1		10.9	9.0	6.5	7.0	11.1
France	1.6		5.4	5.1	3.8	4.9	7.1
Germany	-0.5		2.6	-0.2	0.0	0.1	2.5
Others	0.0		-0.3	-0.9	-0.6	-0.2	-0.2
Corporate	-6.0		-6.6	-4.1	-4.8	-4.3	-4.5
<b>GROUP REBITA</b>	<b>6.4</b>	<b>10.0</b>	<b>23.1</b>	<b>27.2</b>	<b>14.7</b>	<b>16.2</b>	<b>30.8</b>
<b>REBITA margin</b>							
Netherlands	2.7%		4.4%	7.2%	4.0%	3.5%	5.5%
Belgium	3.7%		7.1%	6.0%	4.6%	4.7%	6.8%
France	1.6%		4.2%	4.4%	3.7%	4.0%	5.2%
Germany	-1.0%		4.3%	-0.4%	0.0%	0.1%	4.0%
Others	/		-19%	-47.4%	-31.6%	-7.4%	-7.4%
<b>GROUP REBITA MARGIN</b>	<b>1.2%</b>	<b>1.8%</b>	<b>3.9%</b>	<b>4.7%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>4.9%</b>

Source: Company data, KBC Securities

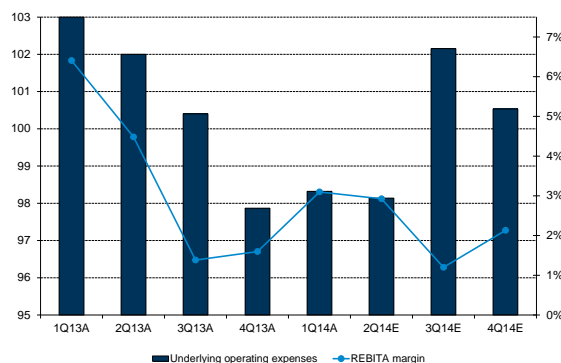
\*No segmentation available

## MARGIN EVOLUTION



Source: KBC Securities

## OPERATING EXPENSES VS. REBITA MARGIN



Source: KBC Securities

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## INCOME STATEMENT FORECASTS (PRO FORMA – EXCLUDING DIVESTED BUSINESSES)

	4Q12A	FY12A	1Q13A	2Q13A	3Q13A	4Q13A	FY13A	1Q14A	2Q14E	3Q14E	FY14E
<b>Revenues</b>	<b>579</b>	<b>2,382</b>	<b>524</b>	<b>550</b>	<b>599</b>	<b>580</b>	<b>2,254</b>	<b>543</b>	<b>580</b>	<b>635</b>	<b>2375</b>
<i>Revenue growth</i>	-11.0%	-11.0%	-11.1%	-8.0%	-2.6%	0.3%	-5.3%	3.5%	5.5%	5.9%	5.4%
Gross profit	124.6	525.8	113.4	115.7	127.6	129.5	486.1	116.5	117.8	136.5	507.9
<i>Gross margin</i>	21.5%	22.1%	20.3%	21.0%	21.3%	22.3%	21.6%	21.5%	20.3%	21.5%	21.4%
Operating expenses	-103.8	-436.6	-103.2	-102.2	-100.1	-104.6	-403.6	-98.3	-98.1	-102.2	-399.1
REBITDA	20.8	89.3	10.2	13.5	27.5	31.7	82.5	18.2	19.7	34.3	108.7
<i>REBITDA margin</i>	3.6%	2.0%	2.1%	2.5%	4.6%	5.5%	3.7%	3.4%	3.4%	5.4%	4.6%
Depreciation	-4.5	-18.3	-3.8	-3.8	-4.4	-4.4	-16	-3.5	-3.5	-3.5	-14.0
<b>REBITA</b>	<b>16.3</b>	<b>70.9</b>	<b>6.4</b>	<b>9.7</b>	<b>23.1</b>	<b>27.3</b>	<b>66.5</b>	<b>14.7</b>	<b>16.2</b>	<b>30.8</b>	<b>94.7</b>
<i>% margin</i>	<b>2.8%</b>	<b>3.0%</b>	<b>1.2%</b>	<b>1.8%</b>	<b>3.9%</b>	<b>4.7%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>4.9%</b>	<b>4.0%</b>
One-offs			-1.3	-28.4	5.6	-17.9	-42.0	0	0	0	0
Amortization			-4.8	-4.0	-3.4	-2.1	-14.3	-1.9	-2.0	-3.2	-10.1
EBIT			0.4	-22.7	25.3	7.3	10.3	12.8	14.2	27.6	84.6
Financial result			-1.5	-1.9	-3.0	-3.2	-9.6	-1.9	-3.0	-3.0	-10.9
EBT			-1.1	-24.6	22.3	4.1	0.7	10.9	11.2	24.7	73.7
Taxes			-0.4	1.9	-11.1	-12.4	-22.0	-4.1	-3.8	-8.4	-9.2
Discontinued			-15.2	0	14.4	-4.0	-4.8	0	0	0	0
<b>Net earnings</b>			<b>-16.7</b>	<b>-22.7</b>	<b>25.6</b>	<b>-12.3</b>	<b>-26.1</b>	<b>6.8</b>	<b>7.4</b>	<b>16.3</b>	<b>48.2</b>
Total non-recurring			-15.3	-23.0	16.6	-25.4	-47.1	0	0	0	0
<b>Adj. net earnings</b>			<b>-1.4</b>	<b>0.3</b>	<b>9.0</b>	<b>13.1</b>	<b>21.0</b>	<b>6.8</b>	<b>7.4</b>	<b>16.3</b>	<b>48.2</b>

Source: Company data, KBC Securities

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## FINANCIAL DATA

Income statement (€m)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales	3,001.1	3,098.6	3,244.8	2,876.2	2,270.0	2,375.3	2,529.7	2,656.1
Gross profit	674.2	676.3	680.0	596.6	486.9	507.9	556.5	589.7
EBIT	0.9	43.1	-4.4	-164.5	41.3	84.6	101.2	106.9
Pre-tax earnings	-35.6	14.9	-23.3	-176.4	31.7	73.7	91.4	98.2
Net earnings	-30.7	15.3	-40.2	-191.7	-26.1	48.2	60.3	64.8
EBITDA	55.3	103.5	59.3	89.8	71.6	108.7	131.5	138.1
REBITDA	95.2	120.1	123.5	106.0	82.5	108.7	131.5	138.1
REBITA	67.9	93.1	96.1	85.6	66.5	94.7	113.8	119.5
Balance sheet (€m)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Intangible assets	1,039.1	1,020.0	1,002.0	789.9	738.1	728.0	715.4	702.7
Tangible assets	63.8	50.6	33.6	26.9	16.3	7.9	-2.7	-13.9
Financial assets	7.9	8.6	12.4	14.7	27.0	27.0	27.0	27.0
Net other assets & liabilities	-43.6	3.5	14.0	47.4	40.4	40.4	40.4	40.4
Net working capital	-20.0	-70.7	-90.9	-82.6	-116.1	-71.3	-25.3	26.6
Net debt	375.9	247.7	206.4	243.9	177.9	162.2	133.4	107.8
Provisions	31.9	23.5	69.0	53.8	68.3	68.3	68.3	68.3
Minorities	0.5	0.6	0.5	0.6	1.2	1.2	1.2	1.2
Equity	638.8	740.2	695.3	498.1	458.3	500.3	551.8	605.5
Capital employed	1,018.7	950.8	900.1	712.0	620.7	647.0	669.7	697.7
TOTAL ASSETS	1,643.6	1,676.6	1,654.9	1,348.4	1,189.6	1,190.6	1,221.5	1,247.6
Cash flow statement (€m)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	226.3	105.6	104.6	29.0	26.2	27.5	44.7	44.2
Net capital expenditure	-18.8	-29.9	-19.4	-19.0	-16.7	-5.6	-7.1	-7.4
Free cash-flow	207.5	75.7	85.2	10.1	9.5	21.9	37.7	36.8
Acquisitions / disposals	-1.3	0.9	-8.0	-18.5	77.2	0.0	0.0	0.0
Dividend payments	-0.2	-0.1	-5.7	-6.4	-5.1	-6.2	-8.9	-11.1
Shares issues	0.3	84.8	0.0	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-216.2	-127.5	-27.6	6.1	-37.4	-25.0	-20.0	-20.0
Other	-31.3	-33.2	-30.1	-11.7	-15.7	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	-41.2	0.6	13.7	-20.5	28.6	-9.3	8.8	5.6
Performance criteria	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales growth	-25.4%	3.3%	4.7%	-11.4%	-21.1%	4.6%	6.5%	5.0%
Gross margin	22.5%	21.8%	21.0%	20.7%	21.5%	21.4%	22.0%	22.2%
REBITDA margin	3.2%	3.9%	3.8%	3.7%	3.6%	4.6%	5.2%	5.2%
REBITA margin	2.3%	3.0%	3.0%	3.0%	2.9%	4.0%	4.5%	4.5%
EBIT margin	0.0%	1.4%	-0.1%	-5.7%	1.8%	3.6%	4.0%	4.0%
Net debt / Equity + Minorities	58.8%	33.4%	29.7%	48.9%	38.7%	32.3%	24.1%	17.8%
Net debt / EBITDA	6.80	2.39	3.48	2.71	2.49	1.49	1.01	0.78
EBITDA / net interest	1.51	3.67	3.13	7.51	7.47	10.01	13.48	15.91
Pay-out ratio	0.0%	79.9%	3.3%	-7.3%	-34.8%	-	-	-
= Return on Equity (avg)	-4.7%	2.2%	-5.6%	-32.1%	-5.5%	10.1%	11.5%	11.2%
Return on Capital Employed	0.1%	3.1%	-0.3%	-14.3%	4.3%	9.3%	10.8%	10.9%
Per share data (€)	2009	2010	2011	2012	2013	2014E	2015E	2016E
weighted average # shares, diluted	77,277,0	82,946,0	84,718,0	79,082,1	80,099,7	80,710,6	81,274,1	82,031,4
Basic EPS	-0.43	0.20	-0.51	-2.42	-0.33	0.60	0.74	0.79
Diluted EPS	-0.40	0.18	-0.47	-2.42	-0.33	0.60	0.74	0.79
Diluted, adjusted EPS	0.11	0.28	0.30	0.35	0.26	0.60	0.74	0.79
Net book value / share	9.04	9.53	8.86	6.25	5.69	6.18	6.76	7.34
Free cash flow / share	2.94	0.99	1.09	0.13	0.12	0.27	0.46	0.45
Dividend (€)	0.00	0.16	0.17	0.12	0.14	0.20	0.25	0.26
Valuation data	2009	2010	2011	2012	2013	2014E	2015E	2016E
Reference share price (€)	9.75	12.84	10.52	6.23	6.77	10.06	10.06	10.06
Reference market capitalisation	688.9	997.7	825.4	496.7	545.0	813.8	820.6	829.1
Enterprise value (€m)	1,068.8	1,208.3	1,030.2	710.6	707.3	960.5	938.5	921.3
P/E	91.5	45.5	35.0	18.0	25.8	16.8	13.5	12.7
EV/sales	0.4	0.4	0.3	0.2	0.3	0.4	0.4	0.3
EV/EBITDA	19.3	11.7	17.4	7.9	9.9	8.8	7.1	6.7
EV/Capital employed	1.0	1.3	1.1	1.0	1.1	1.5	1.4	1.3
P/ NBV	1.1	1.3	1.2	1.0	1.2	1.6	1.5	1.4
Free cash flow yield	30.1%	7.6%	10.3%	2.0%	1.7%	2.7%	4.6%	4.4%
Dividend yield	0.0%	1.2%	1.6%	1.9%	2.1%	2.0%	2.4%	2.6%

Source: KBC Securities

\*Historic valuation data are based on historic prices

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The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	23.00%	0.00%
ACCUMULATE	25.70%	0.00%
HOLD	43.40%	0.00%
REDUCE	6.20%	0.00%
SELL	1.80%	0.00%

USG People is the 4th largest Continental European provider of staffing services. The group generates 2/3 of sales in the Benelux.

The price target for USG People is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Slowdown in economic growth, particularly in Benelux (67% of sales)

Any reference made to a DCF valuation for USG People is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.8%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
2014-02-28	Buy	€ 14.00
2013-10-25	Buy	€ 12.00
2013-10-22	Buy	€ 10.00

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

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