Q1 2019 Earnings Call

Company Participants

• Jacques Van Den Broek, 'CEO and Chair of the Executive Board'
• Henry Schirmer, 'CFO'

Presentation

Operator

Hello and welcome to the Randstad First Quarter 2019 Results. My name is Molly, and I'll be your coordinator for today's event. For the duration of the call, your lines will be on listen-only. However, there will be an opportunity to ask questions later in the call. (Operator Instructions) I will now hand you over to your host, CEO, Jacques Van Den Broek to begin today's conference. Thank you.

Jacques Van Den Broek

Yes. Thank you very much. Good morning, everybody. Another quarter the first quarter of 2019. With to talk to you all I'm here in the room with Henry Schirmer and David and Steven from IR and Ingrid Pouw from Communications to answer all your questions after the presentation. So let's dive right in and start on Slide 6. What we indicated in Q4, while we presented those numbers was that our feeling was that, the slowdown was more of a pause than sliding into recession. And that's actually what we're seeing in Q1. So, markets in Europe are bouncing back slightly, US as for a long time already is quite robust, and our rest of the world continues its great performance with the growth of 10%. Very happy with our EBITA conversion, very happy also with the fact that we've improved, our gross margin compared to Q1 last year. And as you could expect also agile course management and that drives our EBITA margin up with 10 basis points. So, in a no growth environment we are very happy with the fact that we can show an EBITA improvement. Also, in these markets with relatively low growth is also about call it relative performance. Quite pleased with our out performance in the Dutch Market, the Belgian market, and even the German markets, which I'll explain and several other markets.

And also our French business minus 4% in Q4 back to market. Back to gross margin, so why the improvement it's a mix of a few things as know, we've always been very deliberate on demanding a certain price for our service and at the end of the day, if a client doesn't want to play ball also say no to those clients. We've got improved pricing in the Netherlands in Japan which we already flag in Q4 but continuing into 2019 but also in our French market and our US market. So, first of all it starts with a strong focus from our management on pricing, at very clear escalation rules on where to go from a pricing point of view, calculate this on client level on where we make money or where we don't so that helps then talked about it but rolling it out more aggressively, our digital pricing tools where we not only, show the client what the market's all about specifically for certain job categories, but that also materializes into a proposed price. Yeah and then lastly, new in the market although, relatively less growth. The demographics and scarcity in some markets, lead to pricing power for us. Digital progress, I can spend more than an hour on this alone, would just take out a few. The first one we would like to highlight here is work force scheduling a new plan.
This is where for clients, either already in-house clients or clients that have 22-50 Temps, we provide them with a free planning tool, we equip our Temps with app technology. So, they can plan themselves. We've already rolled that out in 13 countries and we have more than a thousand implementations going on. In our German market, despite the automotive slow down we rolled out some 60 of these clients already in a German market. We think this has had added some half of 50 basis points growth to our top line and more to come because this is early days. And in France, of course, also impact on our growth. Always stuff to calculate because there we started with our in-house clients, but we have implemented between 400 and 500 clients in France alone. So definitely a reason for us to decrease the GAAP and close the GAAP to market. In general, we're going to highlight this every time, a digital is not about the tools, it's about what our people do with the tools to change we're working not just for our own consultants but also for our clients, but very happy with their performance. And then lastly, I would like to highlight customer delight. Customer delight is a solution developed in Belgium, where we go to our stakeholders, our clients, our candidates but also, our own staff, to ask them what they appreciate. What in our service specifically do they appreciate? What do they appreciate less and that gives very clear guidance to our people on what to do more often

and what to do less? Not surprising probably is what all our stakeholders appreciate most is the human touch, is human attention, is human follow-up, whenever an assignment ends for example.

Our Belgian people have set this up in a scientific way. First, we go out and we asked those expectations then, we develop a dashboard and we measure continuously. And then at the branch level, people can adopt their way of working, directly compared to what clients and candidates appreciate. In our German, sorry, in our Belgian business we are above 8 in our appreciation for candidates. And not surprising that, that has led to an out performance in the Belgian market and we're rolling this now out to 9 other countries. Let's go to the next slide to a few of our geographies. North American market I mentioned it already a quite stable performance 3% growth, now solar that to some slowdown in staffing and in-house, mostly visible in our mass customized but it's in line with the general market trends. Our US process business a mixed picture here. Our biggest business is quite stable. IT technology business quite stable in low single-digit growth. Our F&A, white-collar business still down quite stable, but our smaller businesses Randstad corporate services. What is Randstad corporate services? this is a client at one location where we supply all staff both contingents and perm doing well and also our life sciences. This relatively small business, but doing well and therefore they have an improved growth performance in our US professionals business. Overall a good margin improvement in our US Business as can see. Due again, yeah like it is and a global level by the way, good pricing this is a market, that gives us good pricing wage inflation is around 3% probably, and every type feels fuel steering on course. Our French business, I mentioned in the last call, that I was very confident that our strong French management team, could definitely in this market come back and they've done so, very happy with their performance.

We were below market also because of saying no to very low margin clients. We're now back at market very much driven by growth in SME and growth in our work for scheduling and new plan implementations. Again very happy with our performance because these comparisons are very tough, very high, double-digit growth last year but also our professionals business still having good growth. Our whole market, the Dutch market very happy with the fact that we are ahead of market because if we're ahead of market with better pricing. I think that's a great performance, anybody can grow but grow at a better margin that's really a challenge. Very happy with our perm performance in the Netherlands, up 20%. We were not happy with our perm performance last year in Dutch market, what the Dutch team did is they visited the French colleagues, to really detail out what was not going well in the Netherlands, and in that sense shapes up and it shows in performance, perm is sometimes, it's a volatile part as you know, but you can beef it up relatively quickly as they've done here. Our professionals growth very robust at 7% lower than Q4, but some the comps are like 5% up or so.

A great performance there. And the Dutch market is ahead of the rollout of the pricing tool. This is what they've developed. What it looks like is we go to a client and we can show the client a sort of a heat map, where you fill in the job and then relative to the region, and the scarcity in the region you can talk to the clients on the possibilities. Should you go for a younger profile should you go for an older profile, should you go into training people, who are not matching the profile. So we're probably going to train more than 30,000 people in the Dutch market alone to make them eligible for a placement at a client. Stable margin at 5.2% including of course one week in there less. The German market yeah, sometimes I thought, I would never say that but I'm quite happy with the German performance at minus 10%.We're way above market. You've seen manpower coming in at minus 23. So, it's tough out there, of the 10% roughly 7% or 70% of the decline is automotive related, we saw the trends before the summer. So last year around this time prepared to take cost out we did that in November. And therefore we still have a good EBITA, given the circumstances because of proactive managing of course. So again happy, with our German performance. We don't see this market bouncing back any time before the summer certainly not. So, probably in the German market as of September, we'll see more. Again 60 workforce and new plan clients rolled. Our plan is to do a 184, this year, so this will help in a tough German market.

Our Belgium business, challenging market. The market went negative but we still growing, actually, a slight improvement on the back of Q4. So, good out performance and this is with a market share of 26%, 27%. So, quite a stable, and impressive performance of our Belgium team. As I mentioned, they developed customer delight, and what we also have been doing in Belgium is rolling out our data-driven sales to, experimented piloted in the Dutch, French and US business. In Belgium, we have created the data-driven tool that can travel. We call it signal in Belgium. We now have full usage in Belgium for all consultants. They know where to go. Is mobile-enabled so whenever they're visiting clients they can see where the demand is in the immediate region, combine that with showing what the labor market looks like then the visit of a Randstad consultant is increasingly of a lot of added value and different from competition and that leads to again out performance. Italian business bouncing back also, as you can see 1% negative growth in Q4. One up this quarter very happy with that performance. Our Italian team, it's not too long ago that we did a massive acquisition here, but they keep it up. It's a company with a strong culture, good steering on actuals. Firm also very impressive at close to 30% growth and an improved EBITA margin. Very happy with our Italian performance which as you know is a big business with more than EUR1.5 billion revenue.

Also to the South West of Europe where Spain returned to growth, down 3% now three up as you might have known there's an increase in the minimum wage, which our Spanish team has passed on very successfully to clients and therefore also a stable high EBITA margin. Other European countries. Yes. A mixed bag. Probably, good to mention that in UK, we had 5% growth improve which given all the Brexit turmoils is quite positive to mention. Also our Polish business which had quite a negative top line in Q4 seems to be bouncing back and overall a pretty stable EBITA return.

Rest of the world a top performer last year keeping it up. Of course this is a big region I would really like to single out India this time. India is a market where we've been already for more than 10 years. It's a tough market, margins are low and you really as a management team need to scope out the parts of the market the clients that are willing to pay for our services. So, I really want to give a big complement to our Indian management team for pulling out the performance already, we saw it in into '18 continuing into Q1 2019. So, definitely an important part of our rest of the world performance here. Then lastly our Global businesses represented as Global businesses because increasingly, we merge the possibilities of these markets, of all these businesses on behalf of our client, source right, good double-digit growth, EMEA and APAC really driving the performers there, where we very much go to clients and we show them not just on a one-to-one basis like we do with our consultants, but also on a global basis. What talent looks like? What the access to talent needs to entail, and how we can organize that. It's very promising part, of our portfolio where increasingly Monster is a part of that where we fuel demands from our client directly into the Monster database and back. Overall at Monster pretty stable decline versus Q4. So all in all a pretty stable picture leading to an improved performance in EBITA margin, compared to last year overall. So that's it. Good start of the year and all that the numbers and everything else. Henry.

Henry Schirmer, 'CFO'

Thank you so much Jacques. So my pleasure now to take you through Q1 financials which were definitely satisfying. And please note that all figures are including our first big spin unless specifically stated otherwise. So, as mentioned by Jacques it was good experience another quarter of competitive top-line growth, and further improved EBITA margin. Delivered against the backdrop of low economic growth in some of our main markets and the net growth working they expect our tech and touch strategy works for both top and bottom line. Most the key drivers of margin progression was our sound gross margin performance, supported by value-based pricing initiatives across our global footprint. Let me take you through, the P&L in a bit more detail. So, We already talked about the strength of our portfolio. Revenue quarter one was slightly up year-over-year, as growth improved in several European countries. Overall stabilizing sequentially as mentioned in our quarter four call. We're pleased with another quarter of market share gains achieved in several of our largest countries. On the next line gross margin come strongly at 19.7%, up 10 basis points year-over-year and ahead of our guidance. I would take you through to more detail on the next slide. Operating expenses showing up slightly lower year-over-year. Well monitored and under control. And our agile cost management continues to pay off safeguarding our ability to support our most promising growth opportunities, whilst adapting cost level to sometimes partial[ph] market realities. EBITA as you can see came in at EUR227 million to the full extent EBITA margin, up 10 basis points year-over-year. So all in all we see good quality of our quarter one result, as its driven by healthy gross margins protecting our ability to continue to invest into our strategic growth initiative. And as already mentioned our incremental conversion rate for the last four quarters was about 78% further, building our strong track record of conversion and as promised on page 14 we show you the gross margin in a bit more detail. Right.

Page 14 let me unpack the gross margin for you. As you can see, the Temp margin reversed significantly and positively from a minus 40 basis points in quarter four last year to plus 10 basis points in quarter one. Let me explain the underlying drivers. The price mixed effects turn positive as a result of structured management efforts to strength our price and capabilities, increasingly utilizing digital value-based pricing to it across the whole portfolio. As a result we're better able to benefit from tight labor markets and in quarter one regions like the Netherlands, Japan and Spain benefited in a very significant way. It confirms our ability to price for superior value delivered to our clients globally and this is more than offset the negative impact of working days in quarter one. The bar in the middle shows the positive impact of our growing firm business. 5% growth started 10 basis points positive mix, it's all fee income and therefore gross margin accretive. And lastly, the bar on the right represents HR services and other which shows minus 10 basis points effect on gross margin, which is mainly the mixed set from Monster. That gets me to the OpEx bridge and Page 15. Let me open that chart by stating that we brought our operational expenses in line some new economic realities already, mid-last year which helped us to secure some leverage in the bottom line. Excluding ForEx effects of EUR3 million sequentially, we reported OpEx up at EUR7 million, but down EUR10 million a year-over-year. We continue our work to flexiblize the cost base to stay resilient in the phase of a volatile market and also improve our ability to steer our investments in the places with the highest long-term return. So finding the right balance between tough cost management and nurturing our growth engines work out well again in quarter one and we do our best to do the same for the rest of the year as well as the keys to drive the business for leverage going forward. Let me close that chart with a confirmation that we are fully on track to deliver our cost savings target of EUR90 million to EUR100 million annually by 2019.

So moving on to Page 16, we will shed some light with all means for our cash flow and balance sheet. We report in quarter one `19, a free cash flow of minus EUR2 million, which is an improvement of EURE23 million in absolute terms. The main driver for the good free cash flow or the change in the French subsidy system. Under the new system, we receive the subsidy without the laborers and more than three await for (inaudible). The last bullet on the left shows day sales outstanding result, which is virtually stable with last year and quarter four 2018 or 12-month moving average. On the right hand of the chart, going straight to draw a strong balance sheet. Our net debt position decreased by 86 million versus quarter one 2018 to EUR1,640 million. And please note, this includes the lease liabilities related to IFRS 16. As we report it to you, this is optically a slight upward effect our leverage ratio however, pre IFRS 16 we're at the 0.8 versus 0.9 last year in Q1. The adjusted leverage ratio will also be the basis of our unchanged capital allocation policy going forward. And for 2019, we project to see a further improved free cash flow versus 2018. Let me also reiterate the outstanding CICE receivable of EUR491 million, we will collect it in the coming 4 years. And also please be reminded that, we will pay a special cash dividend of one EUR1.11 per share in quarter four `19 on top of the EUR2.27 we paid already beginning of this month.

That brings me to my final page, on Page 17. Let me summarize the key messages and provide you with an outlook for quarter two. The firstly, it was good to experience another quarter of competitive top-line growth and further improved EBITA margin in a low growth environment. We are especially pleased to be able to report positive growth margin trends. Our company-wide effort to fully utilizing our digital, value-based pricing tools gained even more traction. This combines with the early intervention our cost base has led to another quarter of EBITA margin progression. Secondly, our digital strategy is well underway and embedded in our business. It's not only helping to drive productivity , it also redefines our way we engage with customers and candidates since approving our business. And certainly last but not least, while market conditions are uncertain and that is very well positioned to capture growth opportunities in the future. Our portfolio is much more diversified than a couple of years ago, but even more importantly we are proud of working alongside the highly engaged and motivated runs that team the like to thank them all for a very solid quarter one performance. On the right side of the chart, I'd like to mention the fact that we march through the similar pace, is as quarter one, and let me point out that gross margins reports too is expected to be slightly above Q1, we also expect OpEx to slightly increase sequentially, both reflecting seasonal trends. Please note quarter two has an adverse point three impact on number of working days, well that concludes our remarks and I hope it helps shed some light on our quarter one performance and we'd be delight to take your question. Back to Molly.

Bilal Aziz

Good morning everyone. Just two quick questions from my side at and firstly on Gross margins. Can you please break out the negative impact from working days you had in the tent margin and separately if there was any reversal of the Germany sickness issue you had last year which I think you had a 10 week strike in 1Q last year, separately. Just looking at (inaudible) and your performance versus the broader markets data that we get. How does that region perform as you went through the quarter and are there any specific verticals that improved sequentially more so than the others. Thank you.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah. I'll take the German sickness one yeah. There's something not great in the system in Germany and that is it sort of based to get sick, the system is such that if an assignment ends for example, we've got this 18 months rule, and if they're not hired, there are some people that don't want to take a new assignment actually, sometimes at a lower salary. So, the Germans sicknesses is still relatively high, which is more of a system thing than a weather thing. So, didn't help but fortunately we took out all the course so therefore, still an okay performance. On France, yeah it is pretty broad based automotive slightly better manufacturing improve. But for us very much small and medium-sized businesses. So we sell them off on the back of that also supported by the digital tools we have in place in house is still doing well and last but not least, but that was the (inaudible) in-house by the way. Our You plan, a work for scheduling solution which is actually, attractive for any client in the French market regardless of the sector they're in. So yeah, it's very much our own performance and not so much sector related.

Henry Schirmer, 'CFO'

Yeah. Maybe just chip in on the working-day impact we're regulating was about minus 10 basis points, on -- in take that quarter on gross margin.

Kean Marden

Morning all. My first question just touches on perm, which I appreciate can be lumpy. But could you help us understand why North American perm decelerated so much from the fourth quarter into the first quarter of this year? And then similar question, but in reverse why the Netherlands flip from minus 14% to plus 20. And then secondly on gross margins. The last two quarters you've beaten your gross margin guidance so I'm wonder if you can help us with a bit more detail about what assumptions you've included in your guidance for the second quarter sequential movement. And in particular, are you looking for price mix to move further up from the 10 basis points improvement that you mentioned for the first quarter driven by the self-help initiatives? Thanks.

Henry Schirmer, 'CFO'

Okay. I'll let start with the perm one, the US As you probably answered the question yourself by posting it, which is a lumpy thing. The US had a tough to explain slow start in Jan and February, looks better in March, so that's good. At the same time, there was one less Monday in the quarter which doesn't help. So those are two reasons. Again no predictions, but I don't expect it to bounce back to Q4 levels but it will definitely be bounced back to growth as far as we're seeing it now. And the Netherlands, Yes, very much around performance. Perm is still an acquired taste, in many markets, and you need to find the right way as always. We've got a standard of working, but the way we approach it is sometimes slightly different for market. And as I mentioned the Dutch colleagues went to France to further tweak with the French team has been quite successful for the last four years in perm. What they could improve, and apparently it shows. So that's more related to our own performance than it is to markets.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yes. And then thanks for the question on gross margin for quarter two actually nothing too fancy. We actually expect similar trends as in quarter one. The working day effect will be slightly less dramatic. So, that will help a little bit. But then in general, just implementing with disciplined pricing be very conscious about driving top and bottom line at the same time. And using more and more our pricing tools in there. So, that's where we try to continue that to the trends we see in quarter one.

Kean Marden

Presuming as you roll out the pricing tools across the group though the price mix tailwind should increase?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

No. Actually, we are not guiding in that regard. So we take a quarter-by-quarter we fight for every customer and where we're not guiding on gross margin going forward.

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Paul Sullivan

Good morning, everybody. Just following up on the gross margin and pricing. How much of the pricing or improved pricing backdrop would you say is just a function of the tight market versus some of these new tools you're rolling out? Just trying to gauge the proportion of the of the improvement that is more structural versus sort of cyclical. Then in terms on SG&A, were you braced for a worse revenue environment, hence the margin based. And if we see sort of revenue growth and in this sort of positive stability initiative zero to plus 1%, going forward. Could we see sort of cost creep back into the second half? And then finally, it's been pretty quiet on the M&A front. Any thoughts on activity there. Thank you.

Henry Schirmer, 'CFO'

Okay. Well, let's start with the last one. The core of our strategy is organic growth based on data availability and technological support of our people in their daily business, redefining the human moment. We have at our clients in Canada is based on technology. So, that's the core of our strategy. So, there's not going to be any sizable as an earth-shattering M&A So, below on that front pricing Yes, we commented on what we're doing. So, first of all, -- but that's not new discipline on pricing walking away from clients. We can grow faster than we're currently doing, but sometimes we are deliberately not doing that we think it's important, also to set the scene as a market leader on where the market is going. So that's one, the second one is the pricing tools, that's not just the pricing tool per se, it's also a much more impactful conversation with clients. So, we always had call it the conviction and a drive of a consultant to talk to clients on the market. And now we increasingly have data. So, we're quite confident that will lead to good pricing, and that's about it, and I think that's quite a lot of guidance on what we're doing on pricing.

Henry Schirmer, 'CFO'

Just on OpEx we do see a normal seasonal increase for OpEx as our revenue will also increase with the seasonality. And we are -- we continue our work to look for opportunities to improve the OpEx level while safeguarding the investments into future growth, which is still plenty here and we would like to support that.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah. And scope creep is a word that to me it sounds like we're not watching things in this current environment as always very diligent on cost. And yes, the ICR for us is the guideline here to balance growth and investing in growth and stable returns. So that's an ongoing management effort here.

Paul Sullivan

I wouldn't expect anything else.
Thank you very much.

Tom Sykes

Yes. Good morning, everybody. Just could you go or maybe just give me your answer to the question earlier from Bilal on the sickness issue in Germany. You didn't actually say whether it was more or -- more negative or less negative than last year. And also, just is there an FX impact in your gross margin? And if so, could you say what that is? And also just on temp to perm conversions I believe, you put those into your gross margin in temp. Could you say whether those were more or less benefits to gross margin, please.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Okay. Yes the temp to perm conversion is very tough. We don't explicitly take that into our guidance and our reporting. So that's a tough one to answer at all.

Tom Sykes

Do you include it into price mix?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Would it go into price mix. Yes. Everything goes into price mix.

Tom Sykes
Yes.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'
But may be to answer your question differently, we do believe that the majority of our pricing increase is due to our own effort and not temp to perm or that sort of thing. There is something going on in our strategy regarding pricing and very happy with the fact that result. The German sickness if anything is slightly lower, but last year that was really, I call it a flu thing going on. It's quite disappointing and that we still have this sickness, which again, we think is a system error or lobbying very hard with a workers councils and unions to in the next release of German collective labor agreements regarding our sector to take this out because we think it's the wrong incentive.

Henry Schirmer, 'CFO'
And Tom, I can confirming it's a limited impact, it's slightly positive but very limited.

Tom Sykes
Okay.
And FX

Henry Schirmer, 'CFO'
FX is -- it's about 10 basis points once positive impact in there.

Tom Sykes
10 basis points positive on the gross margin. Okay. And then just a follow-up on the wage impact. Just wondered, if you could give the what the wage impact overall at the revenue level. And then also, is there – you had the big increase in Spain. But is there a timing difference between when you pass on wage impacts at the revenue long time -- revenue level, sorry, and the wage impact that you pass on to your own staff. And I know, this happens every year, but would there have been anything particular in the different months when these things came in about -- which would have given you an EBITA benefit in this quarter for?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'
Yes. That is no specific EBITA benefit. Henry already commented on the quality of our numbers. So the EBITA improvement is like real and as always effects, we don't calculate, it's very tough also to have the full wage inflation impact in there. Because we don't have a stable workforce as you know, we're into temporary work. So there's a lot of changes there. In the US., we got a little bit more guidance that's why I mentioned it in the presentation. There is also in Germany because that we have these collective labor increases but in other markets is not that regulated. In Europe, in general, wage inflation is still at the early days. So to say but of course, it helps, but that's, that's about it. Yeah, we don't have the majority of our people at minimum wage, so, the mandatory increase it doesn't utomatically translate and you also need to discuss with clients at mostly equal pay. So it's also what happens with their own base skills to really define what happens in our business.

Henry Schirmer, 'CFO'
Just briefly comment on Spain, it's just very disciplined execution of that change, we've seen in the Spanish market. So the team has done a great job there. But we also shows, that our authors are offering is well received by the customers that we have the negotiation power to execute that.

Tom Sykes
Okay.
Perfect. Thank you very much indeed.

Marc Zwartsenburg

Yes. Good morning, everybody. Couple of questions left. First of all, only on the OpEx line. There all the results, top-line better, gross margin was much better, OpEx turned out a bit stronger than anticipated in my view. Do you foresee any programs for the second half that you can still see OpEx perhaps flatting out a bit more than currently is to squeeze out a bit more operational leverage. That's my first question. Then all in general maybe for shock. Do you feel when you're talking to clients and also looking to your dashboards that you really have passed the trough in Q1, and that things are getting a little bit better and that is a bit more conviction of clients, to hire more staff. Final one maybe also for you a shock, they also give a few maybe examples (inaudible) how your digital investments, now really add to productivity and translated to better conversion ratios. Can you -- it's unchangeable I know that organization but then you give maybe a few changeable examples that you see some benefits.

Henry Schirmer, 'CFO'

Hi Marc, thanks for the question, so on OpEx it's really we – I wouldn't say we take quarter by quarter but we do assume that we keep operating a volatile environment going forward, so therefore we are very careful with investments, Henry said that competitive growth is a very high priority, and we've so far we've found a way to be to start with a good execution there and whenever, we have the kind of a bit left to still protect EBITA margin, we are investing further into our profitable growth, and that is I think so far working. So let me not comment for the remaining part of the year, but let us join the assume that we just assumed volatile environment and we stay very close to the cost line.

Marc Zwartsenburg

Yeah, the classic PMIs in the Q1, in the end of last year, beginning of the year, they trended really down. Once they are not in the reaction within and also due to push a bit on the brake there, and then maybe now to invest a bit more again is there any imbalance in that?

Henry Schirmer, 'CFO'

Yes. We've -- also we plan for the worst, and hope for the best. So, we are disciplined, but we are seeing data coming through week by week, and we're very agile there. There's extremely good teamwork that runs that, we stay very close all together and making calls of how to navigate through the quarters. And we also very, very clear as far as strategy is concerned and as far as investments relatives are concerned. And then that balance we will be working.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

We run the company on actual and not on PMI and we're also still aiming for relative out performance, which we did in quite a few market. So, you mentioned in your question to squeeze out a bit more leverage, that is of course a part of running a business. But at the end of the day for us it's about profitable growth in the right balance there. Yes. my predecessor always said if you don't listen to your clients you go bankrupt and if you listen to your clients you go bankrupt too, so they are in an uncertainly environment, where we help them. So, they sometimes push on the brake. The worry for most clients is not so much the cost level, or putting people to work on not increasingly it's about still getting the people, when want it, at the moment and in the region that they are operating in. So, that's also a reason why we created the portfolio for Rebecca Henderson to really help navigate clients in this increasingly complex world of talent. And that's why we see a lot of traction. So, they are as -- again as uncertain as we are and looking for improvements to run the business better and that's where we come in. On digital, maybe, yes, also a bit the same theme So, our digital tools are not primarily geared as bringing costs down. And so our strategy is that can touch. So, redefining the human moment one moment where it really makes the difference. So our data-driven sales tools mean that our apply our consultants only talk to clients that have a need. Our candidate engagement tools, so in 24 markets we now a video interviewing and analysis. So we make it very easy for our candidates to come in at means that, the moment that a consultant such as a candidate. They are in a way further along in the process you might say that increases productivity. We like to think way more important, it improves candidate engagement and Canada centricity. But still on productivity may be, almost all items in our major markets have their own app. So, their schedule is on the app information is on the app, communication is through the app. So that leads to quite some efficiency, and again candidate centricity, and for our consultants we work a lot with RPA, so we're robotic automation of our own administrative processes and that helps. Our search engines and or access to the data including the continuum on solution is improving. So, our consultants have quicker more reliable, more artificially driven improvements in the way they look for candidates. So that's all driving improvements but again, it's early days there, we do think there's more to come.

Marc Zwartsenburg

But you do see some improvement matching statistics for example on your dashboard.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yes. Absolutely. So we've always -- we run out -- you know our funnel right. So you have the candidate part on the left side, the client part on the other side and it leads to the match and we're measuring all those statistics, and where we support a food technology to improve the way we do business, partly to create more growth. I think, deliberately create more growth over time, but yes, of course also bring our overall cost to deliver down.

Rajesh Kumar

Good morning. I'm sorry to have the millionth follow-up question on the temp gross margins. Just looking at the numbers you've presented, seems like you've got a positive contribution from perm gross margin, and if you just back out the proportionate rate of temp revenues, temp margins have gone up as well. Can you give us some color on how much of that improvement is due to shift in mix from lower contribution from Germany versus you're pricing effort, just in terms of order of magnitude rather than the precise numbers.

Henry Schirmer, 'CFO'

Yeah. So, lot of remains on Perm we have that 5% growth and we allocate about 10 basis point contribution in there.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

So the gross margin in Germany is actually above group average. So the fact that Germany grows less in a funny way has a negative effect on our overall gross margin of the group left.

Rajesh Kumar

When you used to report gross profits by geography it used to be lower. So has it changed since.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

No, that's not what I recognize.

Rajesh Kumar

Okay.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

I think there's one thing you need to remember, we've improved our gross margin.

Rajesh Kumar

Yeah, I get that.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

And we're working very hard to continue doing that and we're very happy that it happened and we hope to continue that.

Rajesh Kumar

Okay.

Henry Schirmer, 'CFO'

But we'll also keep both feet on the ground. Right? And it's a very competitive market. So there is -- Yeah, it needs to be earned every quarter. So don't take that we declare victory on gross margins here, but it's good to see you that the efforts you're making are at least four around showed up positively.

Rajesh Kumar

And did you think your competitors are also in a place, where they're trying to increase the prices or is it a very complete specific bottom-up effect.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah. We comment on our own performance and actually leave, it back and I believe it to a competition to present their own numbers.

Konrad Zomer

Hi, good morning all, I have two questions please. The first one, on the performance of your permanent business, which I think was very strong particularly in countries like Italy, Spain, but also the Netherlands. How can you square that with the general market trend that volatility is quite high and certainty as well and that at least historically a lot of companies were for a slightly more reluctant to recruit people on a permanent basis.

And my second question is related to your policy on your special dividend, in relation to IFRS 16 obviously, confirmed that it won't have an impact on shareholders and you gave the 0.8 on a pre IFRS basis. How are you going to present this going forward, IE, your net debt obviously has gone up, because of the changes, but how are we going to forecast your special dividend based on your leverage?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

If you like to pick the first one out there. Yeah I'm going to take the second one, that said I think, this is really your ballpark will let me start on Perm. So, I thank you so much for the compliments, and yeah there is no general trend of course, first of all were very actively selling this and on the one hand there's the economics and cycle and that sort of thing but there's also scarcity, so clients are prone, when they see a good candidate to also hire him or her and next to us going out there and increasingly we've trained certainly in that what we called temp in our call it mass customized perm mass or the same profiles that we delivering them. We always ask both questions now very consistently and yeah that leads to good growth of very happy. That's also why, I gave our Italian and our Spanish but also our Dutch colleagues, compliments because we don't feel this is just a mark. We do feel these performances are better than market.

Henry Schirmer, 'CFO'

On that IFRS 16, you -- I'm sure you've seen our first statement and you -- if you've picked up from there. Definitely right, there is no impact on revenues gross profit underlying. They look EPS or any of those measures then at least for 2019, we keep on referring to our leverage ratio pre IFRS to just keep the confusion out of the way and then the our capital allocation policy, remains to be intact it's confirmed, and we just refer back to the old to the old way of calculating it.

Konrad Zomer

Right, and then I'm probably as from next year onwards, when we have like a full four quarter comparison base, you might change the absolute number without it having an impact on shareholder remuneration?

Henry Schirmer, 'CFO'

Yeah, we will make that call somewhere, in the course of the year, but least for '19 don't know avoid also for 20 if we make the change of indeed we will not make it an impact on our capital allocation policy.

Anvesh Agrawal

Hi, good morning. I got three questions. The first of the beginning of the presentation, you talked about rolling out of work for scheduling a new planet multiple client locations, And as we understand you provide these tools for free. So we just wondering how should we think about the implementation cost and whether it could have an impact on the operational leverage? And second, you have taken the cost action in Germany last quarter. I understand the profitability still good but the margins still kind of declined, why? So when should we expect the payback or the market conditions won't allow the flat margin going forward? And then finally, at the restructuring in Monster has continued in this quarter as well, so just wondering what is your outlook there? Thank you

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah. So work scheduling YouPlan here, the implementation cost is fairly limited. So you shouldn't expect anything on as we may be higher on the back of that, it just fuels our growth. So that's the good news actually. On Germany, yes, again, given the market circumstances we're quite happy with the performance. And yes, it remains to be seen how the rest of the year looks. We're not optimistic in Germany, as far as we can see now towards the summer which is sometimes see is there's a reset after summer but for Germany, again relatively good performance very happy there but we're not expecting any improvements in Q2 in Germany and third one was our Monster. Yeah. It's another restructuring. So part of that, is that what we still saw in a Monster is that for very small clients. We still have manual sales. We're now building in an equal more platform, my clients can have their own online job orders and place them through e-commerce. So yeah that's where unfortunately we had to take out some people. There's no guidance for Monster for the rest of the year, as we don't do guidance on any business for the rest of the year.

Rajesh Kumar

Just to follow-up on Germany. And I understand you're not expecting any improvement in performance but from the margin side given you've taken restructuring, should we expect some kind of improvement sequential or like in Y-o-Y plans? Or given what the growths are it's kind of difficult to maintain the margins there?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah. depending on the top line and so. Yeah if it deteriorates further is going to be tougher and we need to again look at our cost, if it's like this then, we know where we are. And hopefully it bounces back at some point which were not seen.

Henry Schirmer, 'CFO'

And (inaudible) please be aware on the Q1 EBITA margin Germany also included the negative working day effect.

Rajesh Kumar

Okay. Can you qualify that? Please.

Henry Schirmer, 'CFO'

It's still early days but you can see at the group level, it's about 10 basis points and you can see how big Germany is for the group.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

And in Germany everybody's on our payroll. So in that market it has a more pronounced effect.

Suhasini Varanasi

Hi there. Just a couple of quick ones on your medium term strategy. The tech and touch strategy seems to be working out for you quite well as we've seen in the first quarter results. How far do you think your competition is versus you guys? And the second one is on pricing pressure generally in Europe, has that stabilized, has that worsened because your growth is slowing down, can you comment on that, please? Thank you.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yeah, how far ahead are we on competition biggest question is always who's competition. So first of all you need to shelter your clients, big clients. They always have the question do, I do it myself, do I rely on a partner. And again at

Google, LinkedIn and there's all sorts of new competitors out there. So, I don't really care that much how far ahead we are on competition, and we have our own strategy, and I'm Dutch, so I also always think we're not going fast enough but we try to do it ourselves as fast as possible. And as you know, we have a 6% market share globally, so it has a lot of room to maneuver here. Pricing pressure has he's, we increasingly see clients and certainly again because we showed them, what Marc look like in many geographies not yet in all, they are increasingly aware of what's out there, and calling the basic assumption that, purchasing says let's do another round of cost-cutting and if you don't do it we will take someone else, that's a bit off. So that yeah, that looks pretty good and it's -- because you mentioned the cycle and then relatively we knew is that we are you have the cycle, but there's less availability of people and that structurally as that demographics, mismatch in the labor market, so that gives us a lot of power and also I think, we're attractive to effective the client, to help them navigate this increasingly complex space.

George Gregory
Good morning everyone. Just one quick follow-up. I think someone earlier asked about the perm versus temp trend I wondered whether you could perhaps indicate, how the temp versus perm exited the quarter please, and whether perm continue to outgrow temp at a broadly similar rate as through Q1?

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'
Yes. George, both are stable. So, in that sense, it's the same thing into early days again, early days Q2, and throughout the quarter. So nothing spectacular happening there.

George Gregory
So perm is stable, Jacques, or do you mean it's the growth rate is stable.

Henry Schirmer, 'CFO'
Growth rate is stable.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'
Yeah. Growth rate is stable.

Andy Grobler, 'Credit'
Hi, good morning. Just one from me. Just on France where the margin was down year-on-year. There's lots of moving parts within the French market as of now. Can you try and spit out what is driving EBITA margin down to what extent. Is it makes versus price or all the changes to see say would be helpful. Thank you.

Henry Schirmer, 'CFO'
And let me quickly look, so actually we are -- let me go to our numbers. So, we see -- we do see working day impact and then we have plus 20 basis points despite net profit sharing in the numbers.

Andy Grobler, 'Credit'
So a 20 basis points of the decline is the profit sharing?

Henry Schirmer, 'CFO'
Let me to clarify it.
So, we have a negative impact of net profit sharing.

Andy Grobler, 'Credit'
Yeah.

Henry Schirmer, 'CFO'

Which is visible in the EBITA margin France, and that's the vast majority of the EBITA margin decline year-over-year.

Andy Grobler, 'Credit'

Okay, perfect. And, the expectation would be that all else being equal, which it probably won't be that will continue Q2 and Q3 and then we get the change to the proposed change to the regulation in Q4 is that the right way to think about it.

Henry Schirmer, 'CFO'

Exactly and then year-on-year to be flat

Andy Grobler, 'Credit'

Okay. Thank you very much.

Jacques Van Den Broek, 'CEO and Chair of the Executive Board'

Yes. So, thank you all for calling in. Thanks for your questions. Again, we're happy with the start but we keep both feet on the ground because you know us and we're looking forward to meet with you wherever you are to further discuss our business. So, I wish you all a great day. bye-bye.