



Q2 Results 2015

Thursday, 30th July 2015

Robert Jan van de Kraats, CFO, Randstad

Thank you so much. Ladies and gentlemen, good morning.

First of all, we have changed the logistics here, improved efficiency, so for the Q2 update we no longer have a physical meeting, so you're all on the line, just a conference call. At my end, the team here includes Jacques, Linda, Chris and Arun, and of course some others supporting us.

I'm going to move to slide 5 right away, summarizing what we would call in Dutch a "lekker kwartaal", which is a pretty strong quarter, based on solid execution and Europe contributing to the growth now.

These nine boxes indicate the most relevant issues that we saw in Q2. Solid revenue growth, up to almost 7% now. Topline accelerated in Europe, both in the Netherlands and France, very much supporting this clearly. Also, North America showed stable growth at the level of 5%.

The gross margin improved, which is not atypical also in the quarter, and this was also supported by permanent placement fees, which were up 13%, and if one would include the RPO fees which are reported under HRS, it would even be higher. It would arrive at 17% growth.

The underlying EBITA came out at EUR215m and the organic last four quarters' ICR is 61%. The ICR effectively is the drop-through rate, and it indicates the percentage of new gross profit, of added gross profit, that arrives at the EBITA level, where we have a clear ambition that this should be around or preferably just north of 50%. Well, the 61% is a good result in this context.

Adjusted net income up 31%. DSO again improved. Global MSP spend grew by 57%, and we'll also address this when looking at North America, but also in other regions like Europe we do see growth. RPO revenue up 36%. And if we look at the volume trends that we measure weekly in our business, we do see that the growth in July is at least in line with the Q2 results, and the outlook for Q3 applies across the board.

Expected full-year 2015 effective tax rate we expect to improve compared to the previous indication and now arrive at a level between 26% and 28%, which compares to a wider range of 27% to 30%.

Moving to slide 6, which shows you the P&L, and I'm going to elaborate on a few of the bullets here. Organic growth rate at 6.7% versus 5.6% in Q1. And then one has to take into account that last year Q2 was 1% stronger than Q1, so the comparables are slightly tougher. Gross profit at 7.2%, again perm clearly contributing, as I just mentioned. Operating expenses are up 4% organically, and gross profit measured per FTE, which is a productivity indicator, improving to 5.3%. Then EBITA margin improved by 40 basis points, last year's 4.1% to 4.5%.

Slide 7 shows you the trend in our book, the Randstad growth development, and I think that the graph speaks for itself. It's clearly improving or continuing. The growth expansion that we see in Europe is clearly supported by the Netherlands and France, where France is now indicating above market, so in both countries we have clearly bridged the gap that existed for a while. We do see stable growth that continues in North America, but also Australia and Japan continued to perform well. And then, the emerging markets continue to show solid growth.

Relative to market, on slide 8, strong performance. A key component of our ambition was communicated at the capital markets day, and it was key to us that based on activity based field steering, we should be able to close the gap and get ahead of the market. And then I think these indications for three of our main markets are speaking for itself loud and clear.

Then, addressing the various geographies, on slide 9 North America, solid growth rates. And then remember that last year Q1 was minus 1%, Q2 was plus 2%, and now it's stable at 5%, going from Q1 in this year to Q2 in this year. Permanent fees, up 16% compared to 8%, which is also a clear improvement, and GP flat at 10%. If we look at the growth in our combined US staffing and in-house business, growth continued roughly at the same level, 7% versus 8%, and also the numbers into July confirm this trend. US professionals improved both at the gross profit line and at the revenue level. Randstad Sourceright, net fee growth of 25%. Canada, a challenging market, revenue down but ahead of market, and all of this arriving at a pretty strong EBITA margin of 5.9%.

In the French market, we now see above market growth, revenue up by 4% compared to zero. If you look at Q4 last year, it was minus 8%, so a pretty strong improvement quarter after quarter. We now have growth after 13

quarters; 13 quarters. That's three years of decline. And of course, all of this gives some indication on the competitiveness of the French market. We clearly saw growth in our staffing and in-house business, in-house very successful, 4%. Professionals improved by 2%, a little less than the first quarter, and perm continued to grow. Gross profit up by 3%, and we do see the focus on SME also starting to contribute, and our activity based field steering indicates 30% more commercial activities. The EBITA margin now at a solid 5.6%, and this is the result of us balancing client profitability with market outperformance.

In the Netherlands, growth acceleration clearly continued into Q2, 15%. Q1 was already at 10%. Perm growth also at a pretty solid level. Our staffing businesses grew 15%, in line with the market. Yacht now up 12%, a little less than the first quarter. The restructuring in Yacht has now been completed. We have introduced our competencies verticals, which is IT, engineering and finance. We also have introduced a new front office system. We're still working on recruitment of certain people to serve our goals. EBITA margin for the Netherlands as a whole at 6.5% now.

Germany, that's a different story; subdued market. Revenue growth flat this time. That's an improvement compared to Q1. Volumes still down. Permanent placement growth of 26%. And if we look at the July numbers, it is something that does not make us pessimistic. It effectively slowly continues as we have seen in the previous quarter. Gross profit at minus 1% compared to minus 6% in the first quarter, and it continues to be impacted by the changes in the collective labor agreement that have been implemented a while ago. And especially the 13-week average calculation rule for sickness pay and holiday pay is having a negative impact. We have made some changes to the organization, which have resulted in a EUR3.8m restructuring charge. The EBITA margin arrived at 4.6%. So this market, as I just said at the beginning, is different. We can see our SME focus starting to contribute. It's early stages. We also have made changes to our professional business. It's now under the leadership of the Group General Manager in Germany, but the additional regulation impact still comes through in the results.

Belgium, stable growth at 6%, this quarter narrowing the gap to market clearly, with a pretty good return at the EBITA level, 5.4%.

Iberia, slide 14, Spain growth continues. Iberia as a whole is up 8%. In Spain, it's up 14%. And we have a very strong focus on customer profitability, which includes credit terms, so payment terms and credit risk, and that really is a challenge. So sometimes we are disposing clients in this country in order to protect our customer profitability. Professionals continue to grow, despite very tough comparables. Perm was growing. So all in all, this is a pretty strong performance in Spain. In Portugal, revenue was down, again, also here the result of focus on client profitability, payment terms, etc., and we continued to see growth in the call center business. EBITA margin improved as a result of all of this to 3.8%.

The UK, on slide 15, flat revenue development. Gross profit, however, grew. It was stable at 5%. We continue to see strong performance in the construction business. Our perm fees, up by 5%, and the EBITA margin improved to 2%.

The other European countries, growth continues across the board. Italy 16%. Switzerland a difficult market, clearly the result of the currency changes, growth eased to 2% and we're making gradual adjustments to the organization. In Poland, a different story. Growth eased to 2%, but clearly the result of scarcity and a very tough comparison base. Scarcity of candidates, I mean. We've continued to invest in growth and we've added FTEs again. Rest of Europe now arrives at 3.3% EBITA margin.

The rest of the world then, stable growth at 12%. Japan improved from 2% to 6%. I note that in Q1 last year the comparison was pretty strong due to the VAT changes, so we effectively continued to see good growth here. Perm also up 25%. Australia/New Zealand grew by 16%, perm by 31%, and we have divested a small care business, which has resulted in a book profit. Asia, we do see growth at 9%, India now 14%, China 20%. And we continue to invest in growth across the region, but we also are focused on returns. Latin America, a bit mixed region. Brazil, of course, a difficult one. We do see, for example, Argentina improving, 16% growth now. And as I just mentioned, our focus has shifted to growth but also profitability, and as a result of that, we now have a return of 0.6% here.

If you look at the financial results, the income statement as a summary here, it effectively summarizes the items I've just mentioned. Integration costs and one-offs, that's both the German restructuring minus the book profit on the Australian disposal. Then the net finance costs clearly lower than the previous quarter, but very much normal here, EUR4m. And the previous quarter we had a non-cash loss of EUR20m due to translation effects. This time it is minimal, that effect.

So I'm moving to slide 20, the segmental performance. Staffing clearly improving its EBITA margin by 50 basis points, good growth based on strong execution and improving productivity, and of course the French improvement is also coming through here. In-house, it continues to be very successful, a good story now. We continue to be focused on transfers of clients from the distribution network through the branches into our dedicated delivery through in-house, which is typically a win/win both for the client and for Randstad. Professionals, we do see improving business in the US, as I mentioned, but across the board it's also somewhat suppressed by the restructuring in the Netherlands.

The gross margin bridge. From Q2 last year to Q2 this year, 18.4%, 18.7%. In between, we have the temp margin slightly lower due to mix effects. A lot of industrial growth here, but also price pressure. And then the contributions from permanent placement, which grew, and it's now 10.9% of GP. Actually, if one would add the RPO fees, it would be around 13% of GP, which would be a record level in the Randstad history. HRS also clearly contributing, based on the growth of MSP and RPO.

The operating expenses we are comparing on a sequential basis here, from Q1 to Q2. First of all, the foreign exchange effect of EUR6m, and then we have the typical seasonal pattern, I would say, in the marketing spend. But then we have also added, based on growth that we see, for example, North America, Iberia, Italy, so that's why you see organic additions in the EU. It should say Europe, by the way -- in North America and also in the rest of the world.

Net debt, this is effectively the reported high point in our net debt level. This is a typical seasonal pattern. In the second quarter of the year, we always pay holiday pay, holiday allowances in the Netherlands, in Belgium the dividend goes out of the door. As a result of that, we typically report the high point here, and that's also the case today. Leverage ratio at 0.7 now, but I would say still a solid balance sheet, very solid balance sheet. DSO stands at 51.2, now an improvement again, and working capital arrives at this high point of the year at 4.2%. Normally, it's around 3%. Return on invested capital, 15.1%, well ahead of the WACC.

Slide 24, the free cash flow in the second quarter, I would say there's effectively nothing special to report here. The net additions in property, plant and equipment and software are mainly the results of our investments, and indeed in software, some office equipment, nothing specific here. The dividend paid is stated a little lower on the page, EUR94m, and that is reflecting the record level of dividend that we paid in April based on our last-year results.

That brings us to the outlook. Organic revenue growth 6.7%, and June was up more than 6%, and the positive volume trend has continued into July, which means that it appears to be at least in line with the quarter average. I've got some data for you on the geographies, and sometimes our exit rates are a bit confusing due to the impact of estimations at the end of the quarter, which are always complex, and working days effect. Sometimes we take out a working day because it's not officially a working day, but still we have some people working on these days.

In order to give you the best possible indication, we provide you with the underlying exit rates for the month of June by geographic segment. In the Netherlands, June arrives at 13%. In France, June, 4%. Germany at zero, which is actually 0.1% so it's not a very favorable rounding here. In Belgium it was 7%, in the UK minus 1%, Iberia 6%, North America 5%, rest of Europe at 8%, and then the rest of the world 9%, which adds up to more than 6%. We also continue to expect a significant foreign exchange impact on revenues, gross profit, OPEX, and then of course it's less at the EBITA level, which was by the way EUR11m in Q2.

We remain on track to achieve our cost reductions and efficiencies that have been announced at the capital markets day last year, which aims at EUR60m to EUR70m, to be achieved in two steps, in 2015 half of it, the other half in 2016, and we're well underway. We also not just expect but we're sure it's going to have a similar number of working days for Q3 as last year.

The Q3 gross margin is seasonally impacted, as always. That's a typical development in our book, for example, impacted by holiday workers in Belgium, and that we always see coming through, so the Q3 gross margin should be slightly below the Q2 level.

And by the way, in terms of the quality of the quarter, Q1 is the softest quarter. Q2 is clearly an improvement there. Q3 is ahead of Q2, normally, and then Q4 fights for either the second or third place with Q2. It very much depends on the impact of Christmas at the end of the year.

Our cost base is expected to increase modestly sequentially. Operating expenses are going to be up on an organic basis. We have continued targeted investments in headcount, in line with what I shared with you when discussing the OPEX for Q2, and the sequential foreign exchange impact is expected to be relatively limited. For 2015, as I said at the very beginning, we think the expected tax rate can be adjusted to 26% to 28%, coming from 27% to 30%.

On slide 26, we've copied the slide that we used to summarize our discussions at the capital markets day, and it includes whatever you want to look at. This could be an ice bowl. It could be a bucket or a basket, but it's about the balls in there. Topline growth was at the time set at the level of consensus. Today, we're a little higher than that. Our cost savings, as I just mentioned, are clearly coming through. Our activity based field steering is doing a good job in terms of closing the gap with market and improving productivity, and our focus on professionals, permanent placements and SME is helping and should continue to help the business mix. As a result of that, we believe we're very much on track towards the ranges as stated here, assuming that the trend of today will continue.

And then finally, on page 27, again, the same slide as the opening slide, with what we believe are the highlights of Q2.

We'll now move to Q&A, and I'd like to ask you to limit yourselves to two questions in each round.

Q&A

Operator

Thank you. Our first question today comes from the line of David Tailleux of Rabobank. Please go ahead.

<Q - David Tailleux>: Yes. Good morning, gentlemen. First of all, on the EBITA margin in professionals, it was rather flat in the second quarter, and in the Q1 I think it was up by 110 basis points, so maybe you could clarify that. And then, on France, your staffing trend seems to be quite stable on revenues, but perm is more volatile looking from Q1 to Q2. Could you also give more color on that one, please? Thanks.

<A - Robert Jan van de Kraats, CFO Randstad>: Yes. The professionals EBITA margin, I mentioned it, David, that we did see some impact coming through of the adjustments in the Netherlands that we're making. Of course, it increases the internal focus, so that has not supported the return of our professionals business, and we expect the impact to change towards the end of the year into a positive mode.

<Q - David Tailleux>: Okay. And then -- yes, sorry. A quick follow-up on idle time, has that also increased significantly then in Q2?

<A - Robert Jan van de Kraats>: No, that's not the main issue.

<Q - David Tailleux>: Okay. Thanks. Sorry. The other one.

<A - Jacques van den Broek>: Compared to Q1, of course, you know that May is not the strongest month here. We have in that sense less working days, and that adds to idle time. That is more a seasonal thing than a business related thing.

<Q - David Tailleux>: Yes.

<A - Jacques van den Broek>: To France, on perm, very happy with the trend, the growth trend as such, but there's two things here. One is it's of course still from a relatively low base if you compare, and perm is by nature volatile. June was a bit soft, was also a very strong month within the quarter last year, so maybe comparison played a role here, but July looks pretty good again, so we do expect perm to be adding to our French results.

<Q - David Tailleux>: Okay. Great. Thanks, guys.

<A - Robert Jan van de Kraats>: And it's not just guys here. It's also Linda here.

Operator

Next question comes from the line of Toby Reeks, Morgan Stanley.

<Q - Toby Reeks>: I'll stick with two, as well. Could you clarify that July is better than Q2? I think you said across the board regionally. Does that mean that all regions are doing better in -- sorry, all regions are in line with Q2 or better in July?

And then the second one, could you talk a little bit about the MSP and the RPO business? Could you give the absolute level of revenue? And what size of contract comes under MSP, and are we looking at all new regional and global deals now being MSP type transactions, please?

<A - Robert Jan van de Kraats>: Okay. Toby, the July trend, I'll just want to stick to what I said before. We see the volume trends in July, which we measure by week, we see it to be at least in line with the Q2 growth rates, and then I added per country. So it is across the board. It applies to every relevant geography that we do see this trend continuing and to be at least in line with Q2 growth.

<Q - Toby Reeks>: Very clear. Thank you.

<A - Robert Jan van de Kraats>: I think that is pretty explicit.

<Q - Toby Reeks>: Yes

<A - Jacques van den Broek>: And then we move to the RPO question.

<A - Robert Jan van de Kraats>: Toby, raise it again, please.

<Q - Toby Reeks>: Just it was interesting to see obviously the strong amount of growth coming from MSP and RPO. Could you give us the absolute levels of revenue you're making from those businesses? And secondly, what size of contract comes under the MSP? And are all the new large regional global deals MSP deals nowadays?

<A - Jacques van den Broek>: Well, just to start with answering the last part of your question, no, not all the programs are global ones, so there's a large part of the business in the US which is a local US business. There is absolutely also a lot of MSP with our larger clients, but truly global as in everywhere programs are still fairly limited. So that's one answer to your question.

<A - Arun Rambocus, Director Investor Relations, Randstad>: Hey, Toby, it's Arun. On MSP/RPO, we're only giving you an annualized number, and the ballpark is roughly EUR300m to EUR400m of revenue combined for MSP/RPO.

<Q - Toby Reeks>: Okay. Thank you, guys.

Operator

Next question is from Chris Gallagher, JPMorgan.

<Q - Chris Gallagher>: Yes. So just a quick question on the difference in the organic growth in the Netherlands and the actual growth, which was 400 bps. And then the second question, in North America, Sourceright was plus 25%, and I'm just trying to understand how you're growing so much there. Are there some large contracts you've won?

<A - Linda Galipeau, Member of Executive Board>: So Sourceright in the US, we're getting huge growth in two areas. First of all RPO, which is up north of 20%, and that is a combination of new accounts -- I think we've had a record new account level this year, but also expansion of existing customers, so both are contributing. The same is true in MSP. We've won a lot of new programs. Customers are now in second and third generation MSP programs and are often looking to upgrade, so we've had some very significant wins there, but also the volumes within our existing clients continue to grow.

So the good thing about the Sourceright performance is it's across the board, and I think gives you an indication of also what's going on in the market with the MSP as a good bellwether for the revenue trends to the market overall.

<A - **Robert Jan van de Kraats**>: And just trying to get the numbers right, the latest indication of the Dutch market was at 11%, and our June underlying exit rate that I gave you earlier was 13%, so these are the numbers that we have here. I hope that clarifies.

<Q - **Chris Gallagher**>: Yes, sorry. I was talking about for your last quarter the organic growth was 14%, the actual was 10% for the Netherlands.

<A - **Robert Jan van de Kraats**>: We don't recognize those numbers. That's one. But the other one is that you need to take into account that if you look at growth per working day in the Netherlands, certainly May was a very funny month, whereas for example May 5 was officially like a holiday but we found out that a lot of people were working here. So that portrayed a little bit too rosy a picture of the growth per working day in the Dutch market, so that's why we give you the underlying trend, which is much more closer to reality, actually.

<Q - **Chris Gallagher**>: Okay. Thank you.

Operator

Next question is from Nicholas de la Grense, Bank of America Merrill Lynch.

<Q - **Nicholas de la Grense**>: Morning, guys. Two for me, as well, please. Just firstly in terms of restructuring, you took another small charge in Germany in the quarter. I was just wondering if you felt that there were further cost actions that could be taken elsewhere in the Group following the restructuring program of last year.

And then the second one, just on pricing trends. Obviously, the temp performance was a slight drag on gross margin, and you mentioned that pricing pressure was an element of that, as well as mix. I was just wondering, has anything changed in terms of the pricing dynamics since the last quarter, and if so, which regions stand out? Thank you.

<A - **Jacques van den Broek**>: Well, pricing, there's nothing materially changed. There's a pretty stable development in many markets. Everybody gets very excited in the business about large contracts, and then had some pricing pressure, which as you can see we offset either through delivery models or through overall cost.

The cost in Germany is our professionals business, where Robert Jan indicated we've put our Randstad Professionals business and our Group freelance contracting business under one management. So we need less costs, so this is mostly branches and management that we're taking out here.

There's also a market reason. As you might know, there's quite some legal, well, change or call it a clarification on the position of freelancers in Germany. This has gone on for two years. So it's also healthy to position yourself, if you call it in sort of a vertical where you offer both temps, perm and by the way freelancers in the German market. So that's also a reason to put it under one management.

<A - **Robert Jan van de Kraats**>: And if you look ahead, we'll be making some adjustments going forward, but I don't anticipate, let's say, very, very big amounts. We have charged EUR51m in terms of the -- over the last four quarters in terms of restructuring, now EUR3.8m. You'll probably see some more going forward, but I don't think anything extremely significant.

The way we look at it is like an investment. So we evaluate any restructuring in terms of does it give us the return, and we aim at having a return within 12 months. Mostly, we are successful, not always completely, but this way we drive efficiency from restructuring.

<Q - **Nicholas de la Grense**>: Okay. Thank you. And just one quick follow-up on that. You said that the payback on the EUR60m to EUR70m restructuring was going to be half this year, half next. I was just wondering, is that still the case, and will that be more -- I'm guessing that's going to be more second half weighted this year, given the cost trends that we've seen so far. I suppose what I'm trying to say is I'm surprised that costs have grown as much as they did organically, given the restructuring program.

<A - **Robert Jan van de Kraats**>: Well, there's nothing effectively specific other than the seasonal pressure in marketing costs and the additional investments we've made in FTEs across the board, so it should very much be in line. And if you look at the GP over FTE, in the meantime, our productivity has improved, so that's exactly the way we're steering the Company. And then, finally, the way to evaluate this is that our incremental conversion so the drop-through should be north of 50% and it arrives at 61%. So let's say we're not surprised.

<Q - **Nicholas de la Grense** >: Okay. Thank you.

Operator

Next question is from Paul Sullivan, Barclays.

<Q - **Paul Sullivan** >: Morning, everybody. Just really following up on that, can you break out the cost reductions from the programs that you took out in the second quarter, specifically?

And you talk about this over 50% ICR. As recovery picks up and you start to see signs of cost creep, how long do you think that's sustainable, as Europe starts to accelerate?

<A - **Robert Jan van de Kraats**>: Yes, I think we provide a relatively high level of disclosure. We typically test that frequently, so I really think we should stick to the numbers that we have provided. In terms of the incremental conversion, there's some further indication that we can provide is that normally, if a company starts to grow, that's the standard rule, first year we should realize a lot more by just adding some bonus commissions and marketing expenses. So, typically, for a specific Op Co, the ICR should be in the direction of 80%. That applies to most companies, but not all. For example, in the professional space, typically, commissions and bonuses are slightly higher, and that means the incremental conversion goes towards the 50%. But a lot of our businesses we look at with the standard rule of trying to get to 80%. And this typically lasts for one year, and of course it depends on the speed of growth, but typically, as a standard rule, you could say it's a year. And then, after that year, we're starting to add more people, and then the incremental conversion ratio typically goes to a level just north of 50%.

And I think in most countries, that's what we start to see coming through. So we have seen growth in the US for a long time, and I think it's pretty impressive if you look at the incremental conversion ratios, which still continue to be around 50%, and that includes the professionals business today. The Japanese business has been growing for quite a while, and we still see it at around that level, and some others are contributing at a bit higher level.

At the same time, and as my final comment here, life is not linear and life is not mathematic. So for example, in our French business we see a very successful run of our in-house business, which means that we're taking out the client from the branch, moving it inside to in-house, and that means we have to add some people, because we want to keep the people in the branch in order to address the SMEs.

So, effectively, our leverage goes down slightly because of this strategic choice, because we want to enjoy the opportunity to get to new clients from the branch, as well. So then the leverage goes down a little. But the first indications I gave you I think are very clearly reflected in the outcome now of 61% over the last four quarters. I hope this helps, Paul.

<Q - **Paul Sullivan** >: Yes, it does. And in terms of -- but you're not going to provide us with the gross cost savings you took out in the quarter?

<A - **Robert Jan van de Kraats**>: No.

<Q - **Paul Sullivan** >: No, okay. Can I just one follow-up? Can you provide any color on verticals in France, particularly construction? How's that doing?

<A - **Jacques van den Broek**>: Everything is doing well except construction. It's the wrong question.

<Q - **Paul Sullivan** >: Okay.

<A - **Jacques van den Broek**>: Construction in France is heavily -- first of all, it's a cycle, of course. Second of all, it's still driven a lot by public investments, and they're not taking place at the moment.

<Q - **Paul Sullivan** >: Okay. That's great. Thank you very much.

Operator

Next question is from Marc Zwartsenburg, ING

<Q - **Marc Zwartsenburg** >: Good morning, guys and Linda. I want to drill down into your gross margin outlook, because you're guiding for a slightly lower gross margin quarter on quarter. Last year, we saw a bit of an uplift. I think there was also some CSA in there, but could you perhaps give me a bit more color why the trend is not at least flattish to slightly up because mix improvements are feeding through, etc.?

And on the back of that, I would like to also know the gross margin development in the Netherlands, year on year.

<A - **Robert Jan van de Kraats**>: Well, Marc, we'll give you a response on your first question, okay? And that is your assumption was right. So last year some CSA impact in Q3, which improved the gross margin improvement in that quarter. So underlying -- but of course this is part of business, CSA, and we had to make estimations on how much we needed to cover our costs or to cover any discounts we would give, and all of that resulted in more positive outcomes last year, as a result of which we did have an additional release. (Multiple speakers).

<Q - **Marc Zwartsenburg** >: Could you quantify that one? Sorry? Could you quantify the number?

<A - **Robert Jan van de Kraats**>: Marc, it effectively I think can be explained by explaining this difference. So normally, it would be a sequentially slightly lower gross margin last year, as well. That is the --

<Q - **Marc Zwartsenburg** >: Sorry? I didn't get that, Arun.

<A - **Robert Jan van de Kraats**>: Arun said now it's up. And this is the problem. Sometimes you have a benefit, you have accruals, and then you have to explain it that year and the year thereafter again.

<A - **Arun Rambocus**>: Marc, I would urge you to look at the gross margin movement Q3 on Q2 on a group level last year, and you could see it was up. There was an unusual breaking of the seasonal pattern.

<Q - **Marc Zwartsenburg** >: Yes, I know, but I wanted to get a bit more detail on how big that was, because consensus was not penciling it in for this year's quarter. But this is --

<A - **Arun Rambocus**>: That's it.

<A - **Robert Jan van de Kraats**>: Hey, Marc, there's just one thing I'm going to say on this. It's very much the customer profitability that's driving our decisions here, and I think the number that has been reported on Q2 clearly indicates that we are capable of making the right delivery against whatever the client wants as a service, but also what the client wants as a price.

<Q - **Marc Zwartsenburg** >: Can I add another question? Do you have any client feedback, whether they see any signs of weakening of order books related to China or any other weakness that they're seeing in Q3, or is everything just as it was in Q2, no signs of weakening at all?

<A - **Jacques van den Broek**>: We're looking around the table as you ask your question. This again is a bit like, this is the difference between financial markets and life, and so the slowdown in China in the financial markets is two weeks old, and I've not recently talked to clients, but on a serious note we don't really see that.

<Q - **Marc Zwartsenburg** >: Don't see it. Okay. Clear. Thank you very much.

Operator

Next question is from Tom Sykes, Deutsche Bank.

<Q - **Tom Sykes**>: Yes. Morning, everybody. I just wondered if you've got any comments on how high a percentage of gross profit you'd be prepared to take permanent recruitment and the combined level with RPO.

And then just on your slides right at the beginning, I notice you've chosen the ASA data and not the BLS data for market growth in the US. Is that something you think is accurate, or do you think that it's an amalgam of the two?

<A - Jacques van den Broek>: I'll take the first one, and then Linda will do the second one. Of course, we don't have a deliberate goal in mind on where we can take the perm percentage. We do have a deliberate strategy to increase perm, and there's two elements which are really driving that, certainly compared to the last cycle.

One is the deliberate choice we make to grow permanent staffing. That's something we really never had, certainly not eight years ago, so that's helping enormously in the percentage. And the second one, of course, is RPO, which again in 2007 was pretty nascent and now has really matured and maturing. It's mature in the US. It's maturing in Europe. And certainly Asia Pac is a large RPO market.

So I don't know where it's going to get to. It also depends heavily on where staffing and the rest of our business is growing, so if -- but you can see there's definitely and also quite quick an upward trend in this, where staffing is growing and GP and perm as a percentage, so all's well on that front. No deliberate goal in mind.

<A - Robert Jan van de Kraats>: And probably underlying your question, Tom, you might address the sensitivity of this business or the volatility of this business going through the cycle, and please note that what Jacques said, the fact that we now have permanent staffing that is a little less volatile because it is very often served by hybrid structures, where we are more capable of making adjustments in a downturn than we would be in other parts of permanent placement business. So the characteristics of staffing are a bit more favorable here.

<A - Jacques van den Broek>: And then finally, I forgot to mention that, but we also have quite a few new markets where we are concentrating on permanent growth that we never had, such as China. I think going forward Brazil will participate there, and also in relatively mature markets but immature in terms of perm, such as Spain, where you've seen our professionals business from scratch growing into the business it is today, which also gives the Randstad Group the new perm.

<Q - Tom Sykes>: You don't worry about increased cyclicalities of your business?

<A - Robert Jan van de Kraats>: That's why I assumed this was underlying your question, and that's the reason why I answered as I did.

<Q - Tom Sykes>: That's obviously it, yes.

<A - Jacques van den Broek>: But we think we can make more adjustments in the staff in perm space, and that's where we see a lot of growth at the moment. But you're right, if this becomes a very big part then we're a bit more sensitive, but I don't think it's going that fast.

<A - Robert Jan van de Kraats>: Okay. Fine.

<A - Robert Jan van de Kraats>: Let me put my philosophical hat on. You can also say that when -- at the end of a cycle people get hired more, so normally staffing GP would go down. Then perm would be offsetting, so there's an up and a downside to it.

<Q - Tom Sykes>: Okay.

<A - Linda Galipeau>: Yes. Tom, we don't typically look too closely at the BLS data. I would say when evaluating our performance against the market, we usually look at a combination of the ASA and the SIA data. We find that BLS is quite jumpy, has strong revisions and is overly sensitive to light industrial only. We do not, however, recognize the big dip that's been communicated in the ASA data. I do believe we are outperforming market and picking up share, but we think that maybe the ASA data -- this was a combination of the monthly data that's provided, so there may be I think a revision up, so we don't recognize that dip. But I would never refer to the BLS data.

And the other thing, in the ASA, things like conversions and perm obviously don't play a role, so sometimes there can be a little bit of a tradeoff there.

<Q - Tom Sykes>: It's not a gross profit number either, is it?

<A - **Linda Galipeau**>: Yes, there's a real tightening of supply in the US, so we are seeing clients hire our temporary employee, pay a conversion rate and place an order for a new temporary employee. So there is -- this is definitely all about supply at the moment. The market continues to be strong.

<Q - **Tom Sykes**>: Yes.

<A - **Linda Galipeau**>: So I think that's not fully digested in that ASA data.

<Q - **Tom Sykes**>: Fair enough. Thank you very much.

Operator

Next question is from Yves Franco, KBC.

<Q - **Yves Franco** >: Yes. Good morning, gentlemen, and Linda, of course. I'm wondering about the Dutch professional segment, because restructuring has been going on for some time and now a big hit was taken. Is this on some closure of the restructuring that has occurred in the quarter? And can we see an uplift again after that to the 19 figure we saw in the first quarter?

And then secondly, on your margin developments in France and Iberia, these are quite strong, especially in France, where you said that pricing would be somewhat more relaxed from your side, guys, giving away some subsidies. And in Iberia, I think your operating leverage is becoming somewhat limited there. Can you maybe explain what drove the -- is it again the strong increase in professionals there that drove the margins? Thanks a lot.

<A - **Chris Heutink, Executive board Member**>: So let me take the first question on professionals in the Netherlands. As we look back in the history, we see Q4 2014 as a quarter of construction, Q1 as rebuilding and Q2 implementation, and you always get some issues and blockades which you find out during the way. But I think we were very successful in restructuring Yacht into the new Yacht.

The growth in terms of sequential Q1 to Q2 is mainly to do also with the working days. So working days were extremely unfavorable in Q2. Especially for Yacht business that's not very helpful. But I think overall, with the 12% growth we can be very satisfied.

<Q - **Yves Franco** >: Yes. Okay. Thanks.

<A - **Jacques van den Broek**>: On Iberia, well, you ask about incremental conversion rate, but what we are doing, certainly in Spain, is we're also -- in the current market, which is quite positive, we're building this professionals business. So we are very aggressively hiring people. We went from effectively nowhere like three years ago to now a top-three position.

That comes at a cost. So again, this is -- probably if you talk about capital allocation, where we didn't get any questions yet on that topic, but anyway, when we talk about capital allocation we also talk about investment in organic growth. And certainly in Spain, to a lesser extent in Italy, these are immature markets, as we showed you at a meeting we dedicated to that part of Europe. So we think there's a lot of opportunity there to create a better business going forward in Spain.

So, again, we talk a lot about ICR, and it's absolutely a very relevant one, but we also play with it, and sometimes we make deliberate choices to lower it, as Robert Jan for example alluded to in the French situation. Spanish situation is also that.

<Q - **Yves Franco** >: But how much operating leverage? Sorry, Jacques. How much operating leverage are you still seeing in the Spain business, because this has been growing for some time already? And in the slides, you also mentioned strong operating leverage and I would --

<A - **Robert Jan van de Kraats**>: Yes, in my model of first year high incremental conversions, then moving to north of 50%, Spain has been growing for a while now pretty aggressively. We started to grow with a very clean cost base, so not a lot of overcapacity. So the incremental conversion ratio in Spain in our books is a little below

50%. And that also serves the point Jacques made. We are in the meantime adding aggressively a number of people through strategic investments here.

<Q – Yves Franco >: Yes, very clear

<A - Robert Jan van de Kraats>: In Portugal, Portugal always had a high ICR, but they had a high ICR out of a relatively low margin. So what we're doing in Portugal is, given the fact that we have 30% of the market, we want to rebalance our portfolio more towards white collar and SME. That's an investment at the same time we're shedding some contracts, so that results in a relatively low ICR, again, changing the business towards a better future.

<Q – Yves Franco >: Okay.

<A - Robert Jan van de Kraats>: And the French pricing, Yves, I think the conclusion would be incorrect to say that we are bridging the gap with market based on pricing. What we see is that growth is driven by a lot of commercial activities, activity based field steering, on top of that our strong positioning in the industrial segment. Thirdly, as related to that, Randstad's in-house setup, which is very successful, and if we have a client and it starts to grow in the industrial segment, we grow with it and that's helpful.

This year, there was a slight addition to subsidies, which we have used very consciously in the SME segment, or with clients in order to increase the size of our business. So they have been very effective in increasing the customer profitability. I think that's the overall scope.

<A - Jacques van den Broek>: And just to illustrate, we're currently growing in SME in France, so that also adds and is a good sign I think of what we're doing in the market.

<Q – Yves Franco >: Okay. Thanks a lot.

Operator

Next question is from Konrad Zomer, ABN AMRO

<Q – Konrad Zomer >: Hi. Good morning, everybody. Just a question on the US professionals business. The 2% growth I think is a very good number, but I was wondering if that's the start of a new trend. Do you think that you've turned a corner there? And can you tell us anything about the profitability of the US professionals business? Whether or not it's below the average for the US business overall, or any more detail would be very helpful.

<A - Linda Galipeau>: Yes. I hope it's the start of a new trend. What we've seen is the biggest part of our US business is in IT. Our IT business was working hard, I'd say over the last six quarters, to get their performance into strongly positive territory and they've succeeded. So the IT business is doing well, and that appears to be continuing.

The finance and accounting business, same thing. We [supply repair] work, and it is picking up steam, so we're very pleased with that. Our engineering business is suffering a little bit of the oil and gas flu, but that's relatively small for us. So, yes, it's a strong market, so the market has never been the problem, and the improvements that are made appear sustained, so that's positive.

The professionals business is more profitable than our overall US business, so I would -- so as the professionals business grows, that has a positive impact on our overall business.

<A - Jacques van den Broek>: It's somewhat more profitable, I think

<A - Linda Galipeau>: It is somewhat more profitable, yes.

<Q – Konrad Zomer >: And did you also see -- like your margins in the US improved 90 basis points. Was the improvement in the EBITA margin of the professionals business similar to the improvement overall?

<A - Jacques van den Broek>: It was also improving, yes, Konrad.

<A - **Linda Galipeau**>: Because the improvement is broad based. The temp margins are improving. Pay bill spreads are good, SUI is good, conversions are up.

<A - **Robert Jan van de Kraats**>: But your pricing is smart also based on availability of candidates.

<Q - **Konrad Zomer** >: Okay. Thank you.

Operator

Next question is from Hans Pluijgers, Kepler Cheuvreux.

<Q - **Hans Pluijgers** >: Yes. Good morning, lady and gentlemen. One question on France or the pricing environment. How do you see that going forward? Do we see already, let's say, pricing pressure picking up? And how do you see, let's say, the margin development going forward? Do you believe we are close to peak margins? You still see some underlying improvement, but assuming current trends in sales will continue, do you still have upside in the EBITA margin?

And secondly, I come back on the cost savings. Also again assuming current trends in sales will continue, how do you see the net impact from the cost savings and underlying investments and normal inflation? Do you believe that costs will continue to go up, or could you give some feeling on that, how you see that development? If we let's say look into 2016, end of 2016, how do you see that cost level then?

<A - **Jacques van den Broek**>: Let me do France, and then RJ will follow up. So yes, of course, our results and profitability, EBITA as a percentage, is good in France. We're happy with that. We're concentrating on growth in France. So that's why, as Robert Jan already alluded to, we are investing in headcount. When we open a new in-house branch -- we've opened roughly 20 new branches in the first half year, so that means we need to start a branch, or we do that, but we need to start the in-house branch. We sometimes do that with the people who came from the branch, or we replace them.

So we're investing there. We're concentrating on growth. We do think that the French market has momentum. We don't see a significant change from June into -- from Q2 into Q3, so, so far, so good, although, as always, August is there and then it's everybody's on holiday, so there's again the reset in September. But so far, so good.

<A - **Robert Jan van de Kraats**>: Yes. And then the cost development, if you look at 2015, the cost reduction, which was roughly half of the program, most of that arrived in Q1. It was related to the Dutch restructuring. At the same time, of course, we had to process wage inflation, and by the way next to currency impact, wage inflation, and we have started -- we have continued to add FTEs.

So I would say that is the picture of 2015. If you look at 2016, I expect it to come in more gradual, because it's not a big hit like the one that we had in the Netherlands in Q1. And on top of that, we'll continue to see wage inflation again, extension of FTEs.

So the real way also to measure this is to clearly look at the drop-through rate, the ICR, and the productivity measured over FTEs. Of course, if we have a one on one, I'm very much willing to show you where you can see it, but it's clearly coming through and we expect to see the same next year.

<Q - **Hans Pluijgers** >: Okay. Thank you.

Operator

Next question is from Matthew Lloyd, HSBC.

<Q - **Matthew Lloyd** >: Good morning, gentlemen. A slightly longer-term question. In the last -- since about 2011, the share of the labor force in the Netherlands that's been temporary has been growing, but the share through agencies has been flat, so you seem to have been losing share as an industry up until perhaps last year and the beginning of this year. Do you think you can regain that lost market share as an industry? And what do you think caused it?

<A - Jacques van den Broek>: Yes, there's a few elements there. One is the rise of the freelancer. Certainly, if you measure it in money, then most freelancers are at the upper end of the labor market, so you should think bill rate -- well, [EUR8] or something. If one freelancer comes in the market, so that offsets like three regular temps, so that's a bit of a thingy.

What we do see now, the relatively rapid growth of the Dutch market is absolutely to a certain extent the catch-up effect, so I think we can expect the whole penetration rate of temps in the Netherlands to go up. Also, in the US we're at record numbers in terms of penetration, so we do see that in an upward cycle, a prolonged upward cycle, penetration rates goes up again.

<Q – Matthew Lloyd >: Okay. Thank you very much.

<A – Chris Heutink>: I would add a few things on that, on the Netherlands. I think your observation is correct, that there is a big bag, actually, of flexibility coming in. It's not only staffing anymore. It's everything. So that's a good point, I think, because we are also in all those business lines. So it is not only through an agency; it's much more than that.

And next to that, I think that the new development in the law and legislation will give a relatively better position to flexibility and also through the agency staffing. So that will give us, in line with what Jacques is saying, I think a better perspective on the long term.

<Q – Matthew Lloyd >: Okay. Thank you.

Operator

A follow up question from Hans Pluijgers, Kepler Cheuvreux.

<Q – Hans Pluijgers >: Yes. Thanks again. Maybe a little bit early, but I am looking at the new legislation in the Netherlands. You indicated that the exit rate for the Netherlands was 30% and you [principally see] that July per country is at least in line with Q2. But could you give some feeling if you have seen any impact, let's say, from the legislation that maybe temps are being shed somewhat? Or do you see that maybe also by segment? Could you give some feeling maybe if there is some difference? Could you give some indication what you're seeing there?

<A – Chris Heutink>: No. I think it's what you mentioned in the beginning of your question. It's far too early to say. It's July 1 when the law was implemented. So I think we can see probably at the end of year some effects, and some probably negative, probably positive. You've seen in the news, but that's already a long time ago, actually, a few months ago already, that there are some clients which were, well, probably doing something which was related to the legislation. In my opinion, that was not a correct observation.

Flexibility is everywhere, in every sector, and clients are really flexible right now, and that's why they probably just in terms of the cost savings are also cutting costs across the board. And I think it's nothing to do directly with the legislation. But as said, it's July 1. Let's get back to your question in Q4.

<Q – Hans Pluijgers >: But maybe following up, what's -- sorry.

<A - Jacques van den Broek>: Just want to add that it's too early to tell. The funny thing, by the way, as a result of the law, is that the situation around fixed labor is less secure, as in what can I expect if I hire someone, whereas the situation with flex is very clear. So we'll see what the result will be.

<Q – Hans Pluijgers >: And maybe one follow-up on that, because you said maybe the end of the year we'll see maybe some positive, maybe some negative impacts. What do you see potentially as negative impacts and what potentially as positive impacts from this new legislation?

<A - Jacques van den Broek>: Well, the negative effect normally is that there's less temps for us, and the positive effect is that there's more temps. What do you want to know?

<Q – Hans Pluijgers >: Okay. But let's say how the effects could work from this new legislation?

<A - **Jacques van den Broek**>: That's all the theoretical stuff. Let's look at results. We're currently seeing a good market in the Netherlands, and let's hope that stays, driven by economic factors, not so much the legal framework. So we'll update you. Probably at the capital markets day we might know more.

<Q – **Hans Pluijgers** >: Okay. Thank you.

Operator

We have no further questions on the line.

<A - **Robert Jan van de Kraats**>: All right. Well, thank you so much for joining us on this call. We look forward to connect again at the end of October on our Q3 results. And on behalf of Linda and the guys over here, we wish you a nice summer. Bye.