Q2 2018 Earnings Call

MANAGEMENT DISCUSSION SECTION

Jacques W. van den Broek

Thank you very much. Good morning, everybody. Jacques van den Broek here, together with Henry Schirmer to talk you through our second quarter results. Let me immediately go to slide 6. You know, we think it's a good all round performance. We're very happy with our conversion into an increased EBITA as a percentage. Organic growth, 5%, as we already guided for in Q1. We were facing a tough comparison going from 6% growth in Q1 to 9% growth in Q2 predominantly in Southern Europe, and then going from 7.5% to 5%, stable growth rate there.

EBITA, €283 million, 4.7% which is up from 4.5% last year. Looking forward, and of course, you know our visibility is limited here, but we still remain on our guidance of the Capital Markets Day to – with a mid-single 4% to 5% growth, increasing our EBITA as a percentage. So very well online there.

Some highlights, of course as you know, almost an internal highlight, but also this year, our in-house business again, up 12%, Perm 14%. That's the highest we've seen in quite a while, comes from very broad-based business, our source side business but also very much rest of the world. Latin America, Southeast Asia also strong on Perm. What's interesting about rest of the world development is last year our growth was very much driven by Southern Europe which effectively was a first where the U.S. business and the Dutch business were growing less but still we had a very high growth. What you see now is rest of the world is around €2 billion on an annualized basis in terms of revenue. We've been investing a lot in growth in this area, but now they also deliver above average group return. So, very happy on this development which I think increases our global footprint and global presence as a company.

Few words on digital, as you know, I can talk on this one for a long time, but it's a Q call, nevertheless mentioning a few highlights workforce scheduling. So, this is the service where for relatively large uses of flex work, we offer a planning tool. We create a dedicated pool of attempts who through an app – app technology, homemade, they can plan themselves and the client can also do automated planning. Working very well. Started in France as you know where we now have concluded more than 200 clients, but we now rolling it out into eight countries, the U.S. showing the first traction here also with some 40-plus clients already transferred.

We think this will very much help our growth in 2019 and beyond. Data-driven sales was that again, this is tooling that helps our consultants to look where there is demand. This is a solution we've tested in the Dutch business, in the French business, and in the US business. It leads, in general, to an above-average growth in SME part. At the same time, the system also offers information on cross selling. But as I said, these tools were developed in these three markets, in the three systems of these countries. We've taken now a best-of-breed system. We're developing that in Belgium. And this system through our digital factory will travel, and we're going to roll this out in the rest of 2018 into six other countries.

Last, talent engagement. As you know, our strategy is people will decreasing look for jobs or jobs need to look for people. So, we're well on our way to create a data of more than 300 million profiles throughout the world where we can find people where people might not even be looking for jobs. Of course, Monster is a very big part of that. I'll talk a little bit later around Monster, but what I would like to mention is the video and digital assessments that we've now rolled out into 21 countries and going very well helps what we call customer experience of our candidate.

Moving to the next slide, talking a bit to regions and the countries. So, North America, some good news here on the top line. As you see, our Staffing & Inhouse business, they grew 5%, up from 2%. We're quite ahead of market in blue collar. Again, through Inhouse, but also in general blue collar. White collar is improving although the white collar market in the U.S. is still somewhat sluggish, and as we've mentioned before, we think this is also the early signs of digitization, also this intermediating certain digitalization also this intermediating certain job. Overall, good top line.

Our U.S. profs also improving our technologies businesses, around 3%, 4% growth at market currently. And our white-collar business which you know had a tough time is now closing in on the zero mark, so very happy with that development.

Our Canadian market, we're doing very well, above average growth and number one in that market now, but hit by legislation. So in Ontario, which is a big part of our business, minimum wage was increased with 20% and that leads to less volume. We've seen that also in Europe when you go into equal pay in hourly rates or salaries. It leads to a bit of a dumper on volume. So, that's what we're seeing in our Canadian business, which is 10% of our North American business overall.

And then, you see a somewhat less EBITA margin very much driven by temporary effects, very U.S. centric also, high workers comp, high healthcare costs. We are self-insured here. And we're also investing but we feel that that will definitely be good going forward if this trend continues.

The Dutch business, quite consistent picture here, very much concentrating on keeping the market sound, still walking away from clients. Overall, pretty stable margin result. I'm happy with our Professionals growth, 15%, a stable EBITA percentage. You might say Professionals going 15%. Sure it has an upward effect. A part of this business is where managed freelancers. Freelancers is 15% of the current workforce in the Netherlands. We are a big broker of freelancers so it is revenue but the profitability of that is slightly below par of the professionals business. Also, we invested a lot in Perm here which is not as materializing yet as we would see but still maintain the investment because we do feel there's potential in the Dutch market.

Our French business, France has been, moving to slide 8. Our French – slide 8. Yeah, there we are. Our French business been the rock star for a long time. It was one of the markets where we faced tougher comps. 5% tougher comps Q1 to Q2. And growth has been less, certainly less than Q1. It's a mixed. For us, it's also walking away from some contracts as you know but it's also strikes but overall, there is a slowdown in growth. Because it has been so steep, we have been over invested a bit in the market here. As you know, we're very tight on head count steering to a very much going forward. In France, we will adjust. And professional still up good.

CICE, we commented in the first quarter that we would offset the decrease in CICE with growth which we did with the 10% growth we had in Q1. In Q2 unfortunately that's not possible. So going forward, adjustment in cost in France. Germany, solid performance. There is due to equal treatment, volume growth is not spectacular but bill rate increased so still a good revenue growth, professional is quite stable, and a very good improved performance also because of the acceleration of firm in our German business which grew 29% in Q2, very happy with that.

We go to probably the company we are most happy with almost always which is our Belgium business, very solid performer. As you can see, above market – high market share is still above market with a revenue growth of 7% Staffing and Inhouse you can see. And again an uptick in EBITA margin and perm 35% growth, a little bit less than Q1 but still 35% growth in firm. So across the board, a very solid performance of our Belgium business.

Italy, again, tougher comps. We have 6% tougher comps Q1, Q2. And still we're also disciplined on clients, disciplined on profitability. So, we probably could grow faster in Italy but we take a measured approach here. A lot of talks about the legislative changes in Italy, still too early to call. But good EBITA development in our Italian business, and again, 10% growth, almost spectacular growth of last year.

Iberia, 8% tougher comps. So you very much heard the story is a Southern European story as you know. But here you see a great management of costs. So Iberia saw this coming, react quickly, and you see as relatively lower growth still an EBITA improvement as a percentage. Very well done here in our Spanish business.

The rest of Europe growth, sometimes tough comps also here. For example, our Swiss business but still doing well. Pretty stable picture. Profitability hampered by UK business which is negative firm probably related to the Brexit fears.

And then as already mentioned in my opening statements, rest of the world, the Japanese business, very, very profitable business for us, 9% growth in the top line, but also permanent placement and professional doing very well. Australia and New Zealand, we're thinking of above-market performance here. Our Chinese business doing very well. Also, our Singaporean business, we moved to market leadership here. This is a small business, but it's a firm business with a very, very nice return. So, it all helps. Latin America, of course, overall, still a young market, but doing very well. In Mexico, Brazil, Argentina, our main countries here. Also doing very well in our Sourceright business, our RPO business.

And that brings me to our global businesses. Sourceright and Monster. Sourceright, great quarter. We are now above €1 billion of managed spend in the quarter. We think, because there's quite a lot of data on this market, we're outperforming the market. What we see in the technological, the data-driven scarce talent space is that clients are increasingly looking for us to manage their total talent as we call it.

Monster, yeah, still stable on the top line, decreased unfortunately, but an increased usage of the runs of the data of Monster. So, going back to Sourceright, Sourceright is an early adopter of the data of Monster. What happens here? So, we have talent advisers. So, they go to clients, and they show them what the labor market looks like to really get into quick delivery if still possible in a local labor market, and they use the Randstad data but they also use the Monster data. So, that definitely give us an edge in this market.

That is happening in more markets in Europe, and this has been one of the goals with Monster. Again, back to my opening statement, Monster was very much for us to get the biggest data lake available in the staffing sector and to really help our clients to find people. If we can't find them, nobody can. And we also help our clients to adjust the profile where needed if the right profile is not available anymore. So, doing very well.

Next to that, we're working as we mentioned also earlier our new business model. Not telling you a lot about it, but you should think to create – that we are creating as we call them, telecentric pools for scarce profiles. So, enriching the profiles of the people we have in the Monster database. So, effectively, this could lead to a direct, permanent placement with the client. We're going to introduce this in the U.S. market in the second half of the year and we'll keep you posted on the developments here.

And as mentioned, also financially, Monster is very much on the control. So, we reiterate our guidance that we gave for the first quarter.

That is for me on the overall performance. And I give over to Henry Schirmer for the financials.

Henry R. Schirmer

Thanks, Jacques. Hello. It's my pleasure to take you through the financial results and then move to Q&A after that. So, let's go straight to the P&L on page 13. Here we go. If you look at revenue down to EBITA quarter two year-over-year, and as discussed by Jacques, we reported a solid revenue growth of 5% against the top competitor on quarter two last year. Just as a reminder, in 2017, top line growth was 6% at quarter one and jumped to 9% in quarter two and stayed pretty much there for quarter three and quarter four. Hence, quarter two this year is the quarter where it gets slightly tougher in the quarter, thus show a very strong growth year-on-year.

It was also good to see the strength of our portfolio coming through, where rest of the world grew double-digit with excellent conversion. On the next line, gross margin came in at 19.8%, down 60 basis points and ahead of guidance. Operating expenses are up 2% year-on-year and well monitored and under control. It's clearly something I noted during my on-boarding visits to Randstad locations in many parts of the world. Randstad is a commercially steady organization with very clear understanding how to drive top and bottom line.

And last but not least on that page, EBITA came in at €283 million, 4.7% EBITA margin, 20 basis points year-over-year. As far as working days are concerned, quarter two is a pretty clean quarter with just 0.4 extra days and not an awful lot of tailwind from that side. And I guess, I should not leave the page without mentioning that as of the last four quarters was about 50%, it was even higher in quarter two. Our business demonstrate that it's willing and able to build a strong cycle of conversion.

On page 14, I like to take you through the gross margin in a bit more detail. Here we go. So the left bar on blue shows the quarter two 2017 gross margin of 20.4%, at the very right bar, also on blue shows the quarter two 2018 gross margin of 19.8%. As I said on the prior page, the gross margin came through ahead of guidance and 60 basis points below last year. The fact that year-over-year, the gross margin is showing up lower is mostly related to mix. Let me lay that out in a bit more detail.

So the first left bar on the left shows the impact of our Temp gross margin which is 30 basis points gross margin diluted. However, 10 basis points of the 30 basis points were due to lower CICE payment in France and the remainder of 20 basis points is mainly down to our fast-growing Inhouse business which is actually converting very well into EBITA, very much in line with the last quarter. So by in the middle, 10 basis points is a qualitative impact for our fast-growing perm business. It's all fee income and therefore, gross margin accretive.

Lastly, the red bar on the right represents HR services including forex impact. The decline is primarily driven by Monster that is fee business as you know, still in decline and hence shows the originated mix in the bridge. It's a pure technical effect. As our business gets more diverse using disciplined delivery models and concept, we acquired some mix effect at play here.

We always have an eye on gross profit in relation to opex to ensure enough benefit is showing up in the EBITA. This is also reassuring that underlying price environment is stable and even improving in some areas like in France and Italy. Please note that we do not really expect gross margin for quarter three coming out slightly lower sequentially due to the holiday season. And that brings me to the opex bridge on page 15.

Also here, let me play out for jumping in what is shows. The left blue bar is quarter one 2018 showing €897 million and on the very right-hand side of the bridge also in blue is quarter two 2018 is €908 million. So the first part of the bridge shows the forex impact in opex which is €7 million.

The middle red bar is the organic net increase of opex of €6 million and then a €2 million benefit in other. And I'm sure you picked out the press release organic opex increase by 1% to €6 million sequentially and 2% year-over-year. Also productivity measured as gross profit per FTE was 2% higher year-over-year on an organic base. Then we say, we are constantly looking for the right

balance between capacity for growth and smart choices to secure productivity which actually worked out well in quarter two. We do our best to finding the right balance for the remainder of the year. It will be the key to drive the business for leverage going forward. We are operating volatile and uncertain markets. And then the absence of visibility, we will certainly drive for agility and resilience.

Let me close that chart with a confirmation that we are fully on track to deliver our cost savings target of €90 million to €100 million annually by 2019 as presented at the Capital Markets Day in November 2017. So going to the next page, covering the P&L and taking closer look at the gross margin and opex, it is now time to shed some light on free cash flow and the balance sheet on page 16. So, it's quite simple and our Q2, our free cash flow improved by €87 million versus quarter two last year.

And the main driver for the improved free cash flow year-over-year was the much lower working capital outflow partially related to the reversal of unfavorable timings of payments in quarter one 2018. We spoke about it in the first quarter. This more than offset the adverse effect of incidentally higher tax prepayment in quarter two 2018 and tax payments made in relation to the Careo acquisition in Japan. This one-off Careo tax payment will slightly drive our cash tax rate; however, it will be beneficial in our ETR for the full year. Therefore, we guide for a slightly lower range from 23% to 25% compared to the 24% to 26% we guided before.

The next bullet shows days sales outstanding which increased by 2 days in the 12-month moving average mainly due to mix effects. So, if I may now ask to try to look at the right side of the chart covering the balance sheet, net debt came in at €49 million lower than last year and we reported leverage ratio of 1.3 versus the 1.5 we saw last year. Most of you will know that the second quarter traditionally were net debt stood at its highest point in the year. We have accumulated dividend payment and payments of holiday allowances, and from now onwards, we should see the balance sheet deleveraging throughout the year.

Seasonally, H2 is also the time of stronger cash flow and reiterate our guidance for higher free cash flow year-over-year. Just be reminded that in September, the special dividend will be paid out at €0.69 per share. So, let me now summarize the key messages and provide you with an outlook for the full year 2018 on Page 17. Firstly, the quarter brought solid top line growth and strong margin conversion. EBITA improved by 20 basis points year-over-year. Secondly, our tech and touch strategy is well underway and embedded in our business, and I'm glad I could see it during onboarding business. It's alive and kicking, and it's touching many parts of the business in many various ways. Thirdly, we are well positioned to deliver full year EBITA margin ahead of our last year's 4.6%. We're guiding to see at least 4% to 5% top line growth.

And on the right side of the chart, I'd like to mention the fact that June grew at a similar pace at quarter two, about 5%, as the development of volumes in early July indicated continuation of the Q2 growth rate. So, to wrap up, I already mentioned the gross margin for Q3 is expected to be slightly lower sequentially given seasonality trend. We also expect opex to broadly stable sequentially.

So, that concludes our prepared remarks, and I hope it helped to shed some light on our Q2 performance. We will be delighted to take your questions. Molly, back to you?

Q&A

<Q - Marc Zwartsenburg>: Yeah. Good morning, gentlemen. First, a question on Monster. Can you perhaps give a bit of an indication what you expect for the second half in terms of top line performance there? Should we expect some bottoming there if the comps are getting easier? And perhaps also because businesses is improving or do you have some data points there? And also, in terms of profitability, are we closer – getting closer to breakeven? Will we already see breakeven result in Q3, or is that still scheduled for Q4 so that on Monster?

The second one is on growth. With unemployment moving lower and lower, is scarcity already getting an issue in certain regions while Germany or France were in the balance? And maybe you can also

shed a few words on U.S., what you're seeing there in terms of top line performance and slight acceleration or some manpower hinting to slight improvement although a different trend there. But can you give us a bit of feel for what you see in terms of cycle in the U.S.?

And then lastly, on the gross margin, should we be going forward now, see the mix improving a bit and also the pricing improvement? And in which regions do you see that happening? Thank you.

<A - Jacques W. van den Broek>: Yeah. Monster is very much the play between the traditional business at Monster, which is the online ads, online ads from newspapers. We commented also that when we bought Monster that that Monster was a bit too slow to adapt through the new job boarding revenue which is very much solution based. So, we are heavily investing in solution-based selling. So, very targeted social, pay per candidate, pay per click. That business is growing, but at the same time, the traditional business is not growing. So, it's very much going to be the tradeoff between those two which will define the top line for the second half of the year and the next year. So, we'll let you know.

At the same time, the business is financially very much under controlled, we've taken out cost again, but we're also at the same time investing to make it possible for the Randstad companies also to better benefit from the Monster database. We invested a lot in mobile applications within Monster. So, we had the app that Monster already had in its portfolio but not in implemented at the frontend. That's now implemented in every Monster country and it drives one-third of current applications. So, that's important for Monster. It's also important for Randstad.

Scarcity, yeah. Well, actually we're very happy with the fact that we have this data-driven strategy. As you know, we can now show in our major markets what the market looks like. Secondly, nobody can do this. So, we can discuss with the client if the profile is still available. If it's available, where it's available. If it's available, at what price they need to pay for it. Either perm or as a contingent worker. Or if it's not available, should we do something with training. We're training across the board more than 25,000 people annually just in our Dutch business. And if not available regionally or through training should they come from abroad.

So, that's very much a discussion with clients and it goes into your gross margin question, yeah. This is also what clients need to pay for. So if not, that they still do the old procurement play, then it's going to happen with us. So scarcity is a relative thing. If we can't find them, nobody can. In U.S., good top line development absolutely is starting. We are way above market portably in blue collar. Does the signal return to growth of the U.S. economy? I don't really know but so far, so good.

<Q>: And also the breakeven level, is that still scheduled for Q4 or should we expect it earlier?

<A>: Just very much what we said in the Q1 call so we don't expect breakeven. Q4 might be but it might also be a small off but these are choices. These are choices we also make on the investment level.

<A>: Let me just add here. We iterate our guidance for about €5 million to €10 million loss on Monster

<Q>: €5 million is sort of full year, you mean?

<A>: Yeah. For full year so we just want to think that we are in control here as far as finance is concerned.

<Q>: And maybe one small follow up, Jacques if I may because you mentioned something on disintermediation on the profit level in the U.S. Can you perhaps tell us a bit what the picture there, what you're seeing there?

<A - Jacques W. van den Broek>: When we comment on the future of digitization, we always say it's not going to be the Armageddon that digitization takes a lot of job but there are jobs if they are pretty routine certainly in white collar. They are to which to an extent being disintermediated and we see this in our sales funnel and white collar. We also see it in the white collar market development in the U.S. We also see it in a white collar market development in the U.S. We also see it to a lesser extent in our Dutch business with some large administrative clients, so just one less white collar because a part of

these jobs are being offshored or automated. Yeah. So it's not a scientific proof yet, but it is very much an early sign we're seeing in the market.

<Q>: And you're active in that field as well?

<A>: No for this intermediating as such in different ways to get people. This is just jobs disappearing. So I mentioned this, I was in Silicon Valley last week and their reception is are not like real people. They are on a stick, and these people are sitting in Seattle. So we know, you work at a bank, you know what goes on, and we're heavily invested in IT also to automate the back office process. And that of course has predominantly an effect on white collar job?

<Q>: Perfect. Thank you very much.

<A>: The next question comes from the line of Srini Vas calling from HSBC. Please go ahead.

<Q>: Hi. This is Srini from HSBC. A couple of questions for me, please. In terms of organic growth slowdown, is it just tough comps or is that a factor of pricing discipline basically resulting in letting go some of your contracts? And is there a factor of slowdown in underlying markets?

And in terms of gross margin, in terms of gross margin, you said mix and pricing, what will lead that reverse? Do you expect that to reverse or this will be the new base that we should considering going forward? And lastly on pricing, so historically you were able to charge high prices when there's a situation of labor scare city. So, do you see such situations in any parts of your business or any regions or something like that?

<A>: The first one. Henry will take the second one. Yeah. Well, of course, we grew 7.5% in Q1. We're growing 5% in Q2 at a 3% tougher comparison. So, you know it's mainly tough comps. And we could grow faster. We could faster in France. We could grow faster in Germany, Italy predominantly because, yeah, we're still disciplined on pricing and that show also in our result development.

<A - Henry R. Schirmer>: Hi, So on gross margins, so there's clearly pricing discipline in the business. But on temp margin, on your question, we're something like strong inhouse growth that comes at slightly lower gross margin that is actually converting really well into EBITA. So just looking at gross margin, it's just kind of only one set of the picture.

<Q>: Okay. So far you said like the prices remain stable. So you believe that this scarcity driven price has to come or you think it's already started in some parts of the business?

<A>: Well, some parts of the business I see that we are pricing for scarcity here.<Q>: Okay. Thank you.

<A>: Well, look, does it move the needle yet? Probably not, but there are pockets there for sure.

<Q>: Sure. Thank you. Thanks a lot.

Operator

<Q - Simona Sarli>: Good morning, gentlemen, and thank you very much for taking my questions. I have three of them please. The first one is on gross margin. If you could please provide more color on the building blocks of the gross margin going into Q3 in terms of, gross margin, working day impact, pricing in Monster?

The second question is regarding opex. If you could please give an update how much your opex was increasing with and without Monster? And also if there is a chance to quantify the SG&A for Monster?

And last question is on Italy, and what you think it might potentially be the impact from the Dignity Decree for yourself and the overall industry, if you think that this might potentially increase the candidate turnover and thus the acquisition cost in the industry? Thanks.

<A>: Yes, Simona. Good morning. I'll take the Italian question. There's a lot going on, but it's too early to tell what the effect on our business will be. It's still very much in design. So, we'll let you know as soon as we know more.

<A>: Yeah. Let me take the first part of the gross margin question, and then I'll ask Robert to take the top of that to take the tougher part if you make. So because we don't like to completely take the part of the gross margin here. As far as guidance is concerned for quarter three, it is pretty stable as we see it going forward. We see seasonality wide that had gross margin going down.

So when you just compare last year, we're 24% in quarter two then that came down in quarter three to 21%. So actually the dilution we expect going forward is also going down a little bit. We don't think it does make sense to completely take it into part.

Yeah. And also, we don't know of course because it's also which market are growing more. We do have some markets with quite a steep seasonal effect, the Belgium market, the French market, the Dutch market. So it's very tough to predict those. As Henry said, you shouldn't concentrate on the absolute level of gross margin in our businesses. It's very much the ICR which is currently doing very well.

<A - David Tailleur>: Yeah. Simona. It's David here. Let me give you a bit more color on the temp margin in the other constituents. So price mix that we don't quantify that this is mainly mix which is about 20 basis points. And then CICE is still about 10 basis points, and Monster to 40 basis points as the biggest part of 40 basis points in HRS is Monster and that includes FX which is a smaller part of that 40 basis points. There's a bit of working day effect as well and the part we mentioned in Q1 et cetera are not showing up as the year-on-year impact in Q2. Hopefully, that helps.

<Q - Simona Sarli>: As a quick follow up, so if I look for example last year, right where your gross margin went down from 20.4% to 20.1%. I would assume that it was mostly related to seasonality, should assume something along this line also this year with roughly 30 basis points dilution quarter over quarter coming from seasonality or it would be like less than that in your view?

<A>: From our view, it would be less than that.

<Q>: Okay. Thank you. And like also in terms of opex which is like an indication that you we're already giving like in Q1, is there a trend that you can give an indication how much of your opex was increasing with and without Monster?

<A>: Oh. That is – yeah, I said without Monster, it was between 4% and 5% organically including Monster, the opex as well was about 2.

<Q>: So, your Opex was still increasing 4% to 5% despite of a slowdown in organic growth?

<A>: Yeah, we're continuing to invest in the future as well definitely.

<Q>: Okay. Thank you very much.

<A>: Welcome.

Operator

The next question comes from the line calling from ABN. Please go ahead.

<Q>: Hi. Good morning, gentlemen. My first question is if you could explain to us why there was a €7 million positive currency effect on your operating expenses, particularly why that was positive and not negative.

The second question is your margin development in the rest of the world is very favorable, Can you maybe split it out by geography a little bit more? And my last question is on CICE, the 10 basis points

negative impact on your gross margin in Q2. Can you maybe remind us what you expect the full-year 2018 impact of CICE will be, please?

<A>: All right. Hi, Conrad. So, thanks for the questions. So the first one – sorry. What was the question again?

<Q>: The €7 million effect.

<A>: Yeah. Absolutely. We are talking about the Fx movement from Q1 to Q2, so not YoY. There you can see it strengthened vs Q, we can take you to the details in a one to one there.

The second, we had really good conversion in rest of the world business. And the third one on the CICE, David, would you like to talk about the total CICE effect on gross margin to 10 bps this quarter?

<A>: Yeah. It's tough to say what the outlook is because very much depends on our growth for the rest of the year in France and that's currently tough call. So we don't know. Of course, the higher we grow the less we have the seasonal effect or the CICE effect and you can compensate. But we'll let you know in the coming quarters.

Operator

The next question comes from the line of Tom Sykes calling from Deutsche Bank. Please go ahead.

<Q - Tom Sykes>: Yeah. Good morning, everyone. Just firstly on the U.S. business, you mentioned that there was going to be a temporary effect of work from healthcare and your investment on the operational gearing. So, how quickly would you expect that to reverse, please?

And then just a point on the data strategy. I think one of the earliest places you've put it in was in France. I remember the presentation we had in London some time ago. And currently you seemed to be a bit below market and your operating margin is going down in France. So, why should we believe that that data strategy is going to enable you to take profitable market share, please?

<A>: Hi, Tom. Thanks for your questions. So, on the U.S. margin, it's absolutely right. So, we see those temporary effects of workers comps, also exceptionally high healthcare costs, which we don't hope to repeat. There's clear expectation that we see our margins coming back in quarter three and quarter four. To what extent remains to be seen, but we have eyes on the ball there, and clearly the expectations of margins will come out better than the quarter two.

<Q - Tom Sykes>: So, would that be using year-on-year or you may be able to get margins actually up year-on-year in the U.S.?

<A>: I don't want to say. It also depends pretty much on the growth we see going forward.

<Q>: Okay.

<A>: Rest assured that we are very, very close to pursuing that.

<Q>: Okay. Thank you.

<A>: Then back to digital and profitable market share. So yeah, we started in France, but what you see here is we started in our in-house business, by the way, this still shows good growth. And we also have a sort of better productivity here. We're now moving to what we call the youplan clients or the small to midsize clients that we implement this to. And then over time, we take market share because we squeeze out the competition. That takes some time, so that's also why I mentioned that the growth effect of all these investments will definitely be seen in 2019 and beyond.

<Q>: Okay. Thank you. And then when we look at the ICR, just on in-house versus staffing, obviously, you're growing a little bit most lately in the in-house business in Q2 versus Q1 year-on-year. But is that

– do you just down a bit more with clients? Is the ICR are actually going up a bit within in-house clients? And would you be able to confirm whether you're actually seeing an improvement in just staffing EBITA? I mean I know you don't tend to split that out, but if it's possible to give some guide as to where the ICR and in-house is versus the ICR of the group, that would be great, please.

<A>: Point of the in-house is the conversion rate...

<Q>: Yes. Exactly.

<A>: All right. So it's the conversion rate from gross margin into EBITA. We don't do ICRs for business line. Effectively of course, if we have got a new in-house client for example, in the first year, the ICR is actually negative because you set up shop and you invest a lot in that client and then overall it increases if you take market share. If the client is flat, we're going slightly down in the ICR and Inhouse if you cannot take out people, actually it goes down. So, that's why we manage ICR very much at the group level, at least for the country level. It has also has a group level as in where are we investing and the fact that the ICR this quarter was very good is also because we see broad-based growth. Not so much just Inhouse but also in our rest of the world business, in staffing absolutely – in SME staffing, so that helps a good ICR.

<Q - Tom Sykes>: Okay. Sorry, just a final one but just to be specifically on Inhouse. As growth is slowing a little, are you actually seeing the profitability come up a little, then is that fair to say?

<A>: Tom, let me answer your question. At a 20 basis points increase in the EBITA margin is broad-based. So, it's feasible to a large degree both in Staffing, Inhouse and Professionals.

<Q - Tom Sykes>: Okay. Great. Many thanks

Operator

The final question comes from the line of George Gregory calling from Exane. Please go ahead.

<Q - George Gregory>: Hi, there. Yeah. I've got a few please – three please. You mentioned some incidentals in rest of world, I wonder if you could give a range and quantify those?

Secondly, corporate expenses has been tracking down Q2 and Q1, just wonder if that was a trend you'd expect to sustain in the current range for the remainder of the year? And finally just on CICE, thinking ahead to 2019. Just wondered if you could give any thoughts in terms of fee like expected net impact on your earnings, taking into account any potential increase in the subsidy on the lower band as minimum wages, low salary bands offset by the loss of tax deductibility, please? Thanks.

<A>: Let me try to cover all three, George. The first one on the incidentals which is a, we call it the nonmaterial amount. On the corporate cost actually, there is an fact that this, allocated out, more cost to operating businesses. So it's more or less flat underlying. And the third one actually, there is no news on the CICE one. There's nothing we can add to what we've already discussed in quarter one and we will keep you posted as soon as we find out more about it.

<Q - George Gregory>: Okay. Thank you.