Corporate Participants

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Robert Jan van de Kraats CFO & Vice Chairman-Executive Board, Randstad Holding NV
Jacques W. van den Broek Member-Executive Board, Randstad Holding NV

Other Participants

Paul D. Sullivan Analyst, Barclays Capital Securities Ltd.
Robert J. Plant Analyst, JPMorgan Securities Plc
Tom R. Sykes Analyst, Deutsche Bank AG (Prime Brokerage)
Laurent Brunelle Analyst, Exane SA (Broker)
David Tailleur Analyst, Rabo Securities
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Randstad's Q3 2013 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I would now turn the call over to your host, CEO, Ben Noteboom; and CFO, Robert Jan van de Kraats. You may begin.

Ben Noteboom, Chairman-Executive Board & Chief Executive Officer

Good morning, ladies and gentlemen. Welcome at our third quarter 2013 results. I am joined here by Jacques van den Broek, Leo Lindelauf, Robert Jan van de Kraats, and our Investor Relations Team. Before I hand over to Robert Jan, I who normally hosts these calls. I have a personal message obviously.

As many of you have learned from our press release this morning, I'm stepping down as CEO of Randstad as per February 28, in 2014. If we include my interim period, I will have been in this role for 11.5 years, and it is time for the orderly succession.

It has been an amazing period of my life as CEO. We, because it's not me obviously, but we, inherited a company with strong core values but in not too good a shape. We also, of course, realized the great potential this company had. With our many dedicated colleagues, we've been able to unlock the potential and create a world leader in its field. We are the only one of the top three large firms in the world who have been able to roughly triple our global market share during these periods.

My motivation has always been to improve our role in performing a very worthwhile function for society. It is impossible not to think every day about how we provide work on a daily basis for over half a million people and how important that is for them. We also have quite a few supportive investors, and part of our success, we certainly also owe to their support.

Continuity and orderly leadership transitions are very important to be able to fulfill our role also in the future. I'm proud to be able to say that we are in excellent shape to transfer the leadership as we inevitably must. There is a strong team in place and all the ingredients are there to build an even stronger Randstad.

On a personal note, this pride is mixed with a realization that I will certainly miss you all very much. But again, we'll have ample time to say goodbye.

Jacques van den Broek, who is sitting next to me, and I will use this period until the next quarterly results to make sure we will have the smoothest transition possible. Until that day, it's business as usual.

So I'd now like to hand over to Robert Jan van de Kraats, to take you through the results. Thank you.

Robert Jan van de Kraats, CFO & Vice Chairman-Executive Board

Ben, thanks. Thanks, Ben. Moving to the Q3 update, looking at performance of financial results and the outlook, and then finally, Q&A.

On slide 5, some key items on the third quarter, but the header says most of it, "back to growth in September", and also, the best third quarter since 2008. That's quite a good

development.
Looking at the numbers, you can see over here. Since Q2, we've added USG, which was not consolidated in the second quarter. And by the way, also the third quarter has three working days more. Organic growth during the quarter was negative, minus 1.1%, but up in September 0.6%. The consolidation of USG was more than offset by the negative currency impact. And also, on a year-on-year basis, we had one more working day.
The gross margin, as you can see, 18.2%, was flat. This was impacted by the French low-wage subsidies. The CICE subsidies, which have an impact of roughly 200 basis points on the French business and roughly 0.4% at the group level.
We also see improved gross margin expansion or gross margins in the North American market as a result of our focus on customer profitability or revenue quality. And this is then settled by a decrease in Europe, as a result mainly of legislative trade changes in the Netherlands and in Germany.
OpEx, up €11 million sequentially and down €26 million year-on-year. The €11 million sequentially is mostly the result of adding USG, roughly €13 million. And then the other items were somewhat higher cost in Europe, reflecting our first investments in marketing and some bonus accruals but also, again, settled by the foreign currency impact.
EBITA at €184 million, which is up 16%, and that arrives then at the margin of 4.2%.
On the next slide, you can see the gradual recovery in Europe. We have limited the scale a little so that you can see the differences: Group, Europe, North America, and Rest of the World. Since Q3 2011, we see growth in Germany, in Iberia, in the UK, in Italy, in Switzerland, Poland, Norway and Sweden.
Strong focus on profitability or revenue quality in the North American markets, which means that our key focus is on gross profit here. Continued growth in Japan and the other emerging markets, and we have seen a move from minus 2.6% in July in revenue trend to 0.6%-plus in September. So we are now finalizing now seven quarters with either zero or negative growth in the first quarter, it was the first quarter of 2012.
And if we would refer to the longer term trends, a slide that you typically from us, you can see that normally from here, if things start to improve, let me say, the typical scenario. And as you know, Randstad's visibility is very limited, but the typical scenario is that it offers opportunities for significant growth.
North America, record profitability this quarter, 5.5%. Gross profit is up 2% year-on-year. Again, there's focus on revenue quality here. Revenue was down minus 3%, which is equal to Q2, a little improvement towards the end of the quarter, September at minus 2%, and very limited impact from the government shutdown.
Looking at the Staffing and Inhouse segment and Professionals separately. Staffing and Inhouse gross profit up strong 4%, revenue down 4%. We see good performance in admin and perm but at the same time, we see significantly less demand in the banking and finance sector.
U.S. Professionals, GP down, but September at zero, September flat. Revenue was minus 3% in the quarter. We do see, however, an improving trend through the quarter especially at IT. Perm was up 5% and we have taken some measures. We have simplified the management structure, reduced the layer in the organization.
EBITA margin, as I mentioned, moved from 5.1% to 5.5%, which reflects good cost control and synergies from the SFN transaction.
On slide 8, some words about France. It's a bit more of a difficult market in Europe but also, here we see improvements. It's a gradual recovery, higher gross profit and some help from the low rate subsidies. Revenue down by 6% compared to last quarter, sorry, last year, minus 13%. In between, if you look at the quarters, it has been very difficult in France. Q4 last year, actually, was at minus 14%. So this is finally an improvement. Gross profit up by 10%.
I have a few words to add, by the way, on revenue. We see an improving rate of decline also through the quarter, and we also see growth at In-house accelerating, which is driven by client wins, and also transfers from our regular Staffing business into In-house. And Professionals, also, slightly better at a level of minus 11%.
And then gross profit, up 10%, which includes the impact of the CICE subsidies. So effectively underlying the CICE subsidies, the gross margin is roughly flat and part of the subsidies are being invested in employment.

Costs went down by 4% year-on-year. FTE is down, mainly due to natural attrition here, 7%, and this is something we anticipate to continue. We have a reorganization program which was announced at the end of last year, which now stands at a voluntary leave plan of 110 FTEs. And we have started the process of merging branches. It's on track. And we expect completion in the first quarter of 2014. This is about 275 branches being converted into larger branches, 65 in total.

In Q4 2012, we announced this reorganization. The rule at Randstad is, as from the moment cash goes out, we aim at returning this within 12 months. We already indicated, at that time, that given the fact that this is mostly management, that the returns would take a little longer here.

In the meantime, we have also released part of this provision because we can do it a little more efficient. So, instead of €28 million, we now sort of on track to what? The €22 million, out of which, €15 million relates to people on which we have a return of €10 million as you can read in the press release. The remainder relates to branches. These branches will be replaced by larger branches, so savings will take even longer to come in.

The EBITA margin is up to 4.5% now, which compares to last year's 2.5%.

The Netherlands, slide 9. Good profitability. Recovery ratio, 178%. This market, by the way, has been sort of hovering around this level for quite a while now. If we look back at 2012, we see quarters at minus 2%, minus 1%, minus 3%, minus 3%; and also in 2013, minus 1%, minus 4%, minus 4%. So it's been hovering around this level. Our focus here is on client profitability and efficient delivery models. The development in The Netherlands is also slightly better in the month of September.

Randstad Netherlands is at minus 1%, Tempo-Team is at minus 9%, and this is also the result of the fact that we have some non-recurring projects at Inhouse Services and also due to the strong focus on client profitability. The development at Yacht improved to minus 9%. This was minus 13% in the previous quarter.

We see the gross margin effects easing. We still are looking at slightly lower gross margins here, which is the result of higher social security charges, but we have some initiatives in place to deal with this. And this is, for example, a positive adjustment of self-insurance taking some risks on our own book and managing these very tightly. We also are in the process of pricing increases to address the cost price increases and also implementing efficient delivery models wherever possible.

Our costs are down 10% compared to last year's. This is mainly, as you can see, FTEs. We're also going through a simplification of the regional management structure at Tempo-Team. And at the same time, we have started our additional investments in marketing campaigns.

The EBITA margin arrives at 6.5%, which is an improvement compared to last year. It includes one additional working day, a higher contribution from professionals, including Yacht, improved business mix, the growth of HRS and also Inhouse. And we have adjusted for €2.6 million restructuring charge at Tempo-Team.

In Germany, we see growth strengthening. Last year, at the end of the year, we were at minus 5%; in Q3, minus 9%; and then, it sort of grew to flat in Q2; and now, it is at plus 4% in the third quarter. We also include here a significant price effect, which is sort of the result of the implementation last year at Q4 of equal pay, and some collective labor agreement increases. And as such, because this was implemented last year, it will fade into Q4. We do see good growth in the IT business. And as I said, the collective labor agreement is included.

Gross margin effects are easing here. It improved, but still not at the level it was, which is the result also of the adjustments in the collective labor agreement, the implementation of equal pay. The gross margin improved in our Staffing and Inhouse business.

Operating expenses are up by 1% year-on-year. FTEs are down 6%. We are adding, however, some FTEs in segments that do show growth so we are investing in continued growth here and also bonus accruals are slightly up. And also in this country, in Germany, we have started our marketing investments.

EBITA margin now at 5.7% compared to 6.2% last year and as you can see in the graph, there is a bit of a strong seasonal pattern in the German market. We do, at this point in time, by the way, not really see an impact on the demand in the market of the recent changes in the collective labor agreements.

In Belgium, strong focus on costs, revenue at minus 6%. It's a difficult market, it's a relatively difficult market compared to other markets in Europe and it might well be that the competitiveness of this market is under pressure. And we're looking at a significant decline last year starting at minus 6%; ending in last quarter at minus 8%; beginning of the year at minus 9%; second quarter minus 8%; now, minus 6%.
We do see, as such, a somewhat lower rate of decline. The administrative segment is holding up relatively well but Inhouse, so mostly blue collar, is at a negative 17%, which is mainly automotive. And we see an improving trend in our Professionals business here. We have a strong focus on profitability, on client profitability. Field steering serves us well and as such, FTEs are down by 11%, and this is related to natural attrition and some smaller divestments.
We are in the process of putting together a restructuring program, of discussing a restructuring program, which is aiming at a more efficient organization, reducing jobs, specifically at management and support, 130. And we have our discussions with social partners ongoing and hopefully there will be more clarity for our people in the fourth quarter. EBITA margins stands now at 3.3%, which compares to 3.8% last year. And please note that in Q3, as announced at that time, there were some subsidies relating to prior years included in the results.
In the UK, we see continued growth, strong cost control. Revenue now at plus 5% compares to plus 2% in the second quarter, but also comparing to quite a hefty 2012. So this is clearly an improvement.
Revenues at 10% at plus 8%. We see continued growth in Professionals led by education, construction and finance. The decline in In-house is persistent, but it is very much the result of our own selection process. We also continue to see good growth in MSP and RPO. And our perm placement fees improved to a level of minus 2%, which was still minus 13% in the previous year. Unfortunately, these, at the consolidated level, are translated into euros and then the impact is not as strong as it is at the local level.
Our focus is on managing costs. Our costs are down as a result of FTEs down by 11%. And our back office centralization is very well on track. And if you look at the graph here the performance in the UK, you can see a lower level of profitability but again, here we have a very regular seasonal impact, so we consider this to be regularly a pattern.
Moving to the Iberian markets. Also here, we see improved profitability. In Spain, we're looking at revenues at 0%, flat. This is somewhat impacted by selection of businesses of clients on the back of client profitability at the USG businesses in the portfolio. We clearly see an improving trend in manufacturing. We even see some movements throughout Europe into Spain, some higher growth in Professionals, mainly perm and HRS. And we have announced a new organizational structure and the integration of the USG business as expected in the first half of 2014, and this is perfectly on track. It's following the plan that we have produced before.
In Portugal, we see revenues up by 4% compared to minus 2% in the second quarter. Good performance in the call centers and also continued growth in manufacturing and automotive. Good cost control, EBITA margin now at 3%. If one would compare to last year, excluding USG, the improvement would be even 1%. By the way, if we include USG last year, we have one more working day.
If I look at we don't have slides on the rest of the business, but just a few remarks. Japan and Italy continued their good growth and also solid profitability. In Australia, we still have challenging circumstances.
Revenue development per industry on our next slide. This is what we see in those segments, in those markets. And partly, that's the result of our selective process on the back of customer profitability. I will leave that for your information.
And then, we are moving to the financials update of the transaction of USG. It's on track. It's completed in three countries: Poland, Switzerland and Luxembourg. And also, rebranding in Austria has been done because Randstad did not have any business in Austria. In Spain and Italy, we are on track, as I have just mentioned. The financial consolidation and the purchase price allocation has been completed.
I'm sure you don't experience it very often, but we have a case of badwill here. And it sounds bad but it's good. It's because we effectively and I mentioned this already at the end of the second quarter, we have acquired a business with net assets exceeding the

purchase price. And as a result of this, there is a sort of positive impact in the P&L reflecting €29 million. So that's the difference between net assets and the purchase price. We also have anticipated annualized pre-tax cost synergies of €15 million to €20 million as mentioned before. The first part of that has come in, in Q3, €1.2 million. The majority is anticipated to come through in the first half of next year. And the total expected integration cost will amount to €15 million, of which by now, we have incurred €4 million. We also have some additional tax synergies in scope as a result of identified net operating losses that can be compensated which are valued at roughly €10 million. This is not annually, this is €10 million.

Now, we're moving to the income statement, Q3. We have €4.3 billion of revenues coming to the 18.2%, that was mentioned just before integration costs now at €4 million, which includes both USG and SFN. It compares, by the way, to last year, €16 million, which was partly integration costs at SFN but mostly, reorganization costs. I will leave the page for your information further.

And I'm moving to 18, Q2, the financial key points. Cash flow amounted to €310 million compared to last year's €207 million. We have, first of all, contributing here a somewhat higher level of profitability, DSO also improved by one day. And I just want to emphasize this, we have favorable timing effects on the payables. And this will have an impact on Q4 as well. This time, the end of the quarter was not a weekend so that's also a little helpful. If you look at the underlying details, by the way, of free cash flow, you look at working capital and we benchmarked that against some of our competitors, working capital, are financial expenses but also our tax expenses, you can see that we're doing rather well here.

Leverage ratio now stands at 1.2, 1.23 to be precise, down from 1.8 in the second quarter, and this will also result in somewhat lower interest expenses again. We've also incurred an impairment in Australia. It's a non-cash item. It was driven by the fact that our profitability has remained somewhat behind our expectations, and this has resulted in a hit of €36.6 million in the third quarter.

The effective tax rate, again, this is always a sort of a mixed bag of some issues together. We are looking at a slight increase compared to where we were in the first part of the year. For the full year, we are giving some guidance at 32%, which is equal to last year, but higher than the first part of the year. And this is the result of the three mentioned items here. We have had to pay a non-recurring withholdings tax because of dividend payments, because the impairment in badwill are not taxable and the mix of our profits throughout the world has changed slightly to countries with and above average tax rates. So this cocktail is the reason behind this development in the tax rate. Our guidance stands at 32%.

Well, our segment performance on 19, you can see the specific developments in staffing with a decline of 5%, but the EBIT margin moving up again. The items that I have mentioned before, In-house also growth led by France, and now Germany and Iberia. In the UK, we made some decline but that is because of our selective process here. Professionals an improving trend across Europe and North America and good growth in the UK, mainly in education and IT.

The gross margin bridge on slide 20, again, I mentioned that already. 18.2% at last year and still 18.2%. And the reasons in between, I mentioned, at the bottom, margin expansion in North America, some impact of CICE but also some negative impact in The Netherlands and Germany.

So all in all, a flat development. I mentioned already the perm fees are a little lower than last year but this is not so much the underlying perm fees, it's very much the translation into euros coming from sterling and U.S. dollars.

Operating expenses on the next slide, both sequentially, the development, at the top of the page. But also year-on-year, you can see, sequentially, the development of adding USG and somewhat lower FX effect and some organic changes in Europe, which is the other result of marketing costs and some bonus accruals. The fact that FTEs are up in the third quarter is the result of USG inclusion but also the seasonable pattern.

Net debt down by a significant €647 million. In the meantime, operating working capital at €566 million, net debt as I mentioned, it's been served well in the third quarter. In the fourth quarter, it's also included in our outlook page. We will pay a tax payable of €130 million, so this will be cash out. There will be some impact of the timing at the beginning of the quarter, so the advantage in Q3 will be slightly disadvantaged at beginning of Q4. So we're not looking out massive changes in the net debt level in Q4.

Free cash flow up, not a lot to say here. The other non-cash items by the way are the CICE because these are tax credits, that means that we can only cash in after three years.

Flipping to the outlook page, here, revenue development per working day was at 0.6% in September. We are having continued improvement into Q4, so I think it's unavoidable, we're going to see growth in the fourth quarter.

The comparison basis 2% easier into Q4, so that makes a difference as well, so that makes it even more unavoidable. By the way, Christmas is a bit more advantageous in terms of planning than it was last year. So hopefully, that provides with some impact as well. We have the same number of working days. We're going to make some additional investments in marketing again, some €10 million is anticipated as we speak. We also have €10 million of annual cost savings relating to the restructuring plan in France and the payment of the tax receivable. Our key strategic priorities remain as they have been, no change here.

And the exit rates in our book in September are minus 3% in The Netherlands; minus 3% in France; in Germany, we've taken the blended rate of August and September because the cutoff moment is always challenging, it's roughly plus 5%; in Belgium, it's minus 4%; in the UK plus 8%; Iberia plus 1%; in North America, minus 3%; the Rest of Europe at plus 10%; the Rest of the World at plus 5%; adding up to the 0.6% that was mentioned before.

Okay. That completes the presentation. We're now moving to Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Konrad Zomer from Zomer Capital Management is on line with a question.

Q

Hi, good morning. Two questions, the first one on the U.S., lower revenues but a great improvement in your margin. Can you indicate to us how long you can improve margins assuming revenues continue to contract?

And related to that, you mentioned, Dan Foley has left the business because of the performance in your Professionals business. Can you give us an indication what the margin development was in Q3 in your Professionals business, please, in the U.S.?

A Ben Noteboom Randstad Holding NV

Yeah. The optimization of business is obviously, if you look at total market and the market share we have, there's a lot of room to improvement, however, it's not our ambition to keep on factoring our business until we have just one most profitable client left that's in the market. So obviously, for next year, our target has to be to have growth in line with market to start with. And then, we should exceed market. It's obviously the position we should be in.

We've taken some steps to actually improve our business. To share with you, the reason we see of the back-fall backdrop as you look at our performance compared to market that is due to fact of underinvestment in good businesses. So, yeah, the management was trying to optimize profit a bit too much and underinvested, so actually it didn't execute, feels to him, good enough. That is now being corrected, and we already see the first signs in September, so we are pretty optimistic. It always takes a little bit of time that we will be back at top line development, at least, in line now with market.

We don't share the separate gross margin developments. What I would like to share with you a little bit is, a touch better than last year, if you look at the gross margin percentage compared to last year.

Q

Okay. Maybe just a quick last question from me about Yacht. You mentioned the profitability was relatively strong, can you give us a feel for what the positive impact of Yacht profitability was on your overall Dutch EBIT margin, which improved by 80 basis points over the quarter?

A Ben Noteboom Randstad Holding NV

Yeah, that's the calculation, that's I would have to do, let me see fast anyhow, what we see is that the profitability I'll help you this way, the profitability of Yacht in Q3 was a touch above the average of the company.

Q

Okay, that's clear. Thank you very much.

Operator: Paul Sullivan from Barclays is online with a question.

Q Paul Sullivan Barclays Capital Securities Ltd.

Yeah, good morning, guys. Just a few questions if I may, firstly, in France, are you seeing or are you getting any pressure or are you seeing any signs of pressures to pass on some elements of the CICE subsidy in any renewals that are coming up in terms of contracts. And do you still expect that sort of 10 bps, 15 bps gross margin uplift from it for next year? That's the first question.

Secondly, could you just remind us of the sort of cumulative cost impact from all your various restructuring initiatives as you see them coming through in 2014. Just to give us a sort of a sense. I estimate about sort of €50 million to €60 million, but I just want to get your sense on that.

And then, the final question obviously, your net debt to EBITA position is improving quite dramatically and will continue to improve. What are your thoughts on the timing and magnitude of M&A? And presumably, acquisitions are still your preference over potential cash returns.

A Jacques van den Broek Randstad Holding NV

Yeah. Good morning, Jacques van den Broek here on question on France. Well, you know pressure in France or margin in questions from clients on the rebates, I have seen that for the last 10 years, when I was involved in France so there's nothing new. Please remember that CICE is a subsidy but we already for quite some years had allegements, which is also a subsidy. So discussions on margin are ongoing, but we're quite adamant. CICE belongs to the employer, worthy employer. So therefore, the answer to those questions on our behalf is no.

Q Paul Sullivan Barclays Capital Securities Ltd.

Okay. Great.

A Ben Noteboom Randstad Holding NV

I'll answer the third question. Robert Jan will answer the second question on the savings. Obviously, acquisition is going down as is also shared in Q4, there will not be a big decline because the fact we have to repay €131 million that we owed the Dutch government. Our strategy hasn't changed. We've always shared with the market that we will return excess cash we have to shareholders, unless we find a more value-creating target for that money.

In general, so far, the biggest challenge of creating more value is actually investing in the right businesses. We've also shared, quite often, the strategy we have. We want to have a bigger density of business in this relative market share.

And the market, color is 100% with profitability. Two, we want to buy in markets where we have a strong management team that can handle the merger. And three, we have a slight preference for more Professionals business. We cannot find, obviously, the right targets at the right price in the right markets, then as we said, we will return the money to shareholders. But indeed, it's a second option.

A Robert Jan van de Kraats Randstad Holding NV

Paul, can you repeat your second question, please?

Q Paul Sullivan Barclays Capital Securities Ltd.

Well, it's just your thoughts on the cumulative cost savings. In your various, you got three or four various plans running into next year. I just want to get your sense on the cumulative cost impact that you see from all of those in 2014 over 2013?

A Robert Jan van de Kraats Randstad Holding NV

Yeah. The anticipated cost savings relate to the programs that are to be executed or in execution, so

Belgium and France. And I would say that's around €30 million on an annual basis. But that again, you won't see coming through because in the meantime, we'll make our investments whenever necessary if we see growth. And also, our marketing investments will continue.

Q Paul Sullivan Barclays Capital Securities Ltd.

Okay.

A Robert Jan van de Kraats Randstad Holding NV

And please note here that as from the middle of this year, you will see, has been included which has an impact of €13 million per quarter on the cost base.

Q Paul Sullivan Barclays Capital Securities Ltd.

Right. Thank you.

Operator: Robert Plant from JPMorgan is on line with a question.

Q Robert Plant JPMorgan Securities Plc

Good morning, Ben and Robert. The UK saw good growth in education, up 22%. Hays also talked about education doing well and they thought it might not last. What's your view on Education? And perhaps more generally, you mentioned the public sector is showing strong demands. Do you think that's going to be sustainable accelerate? Thank you.

A Jacques van den Broek Randstad Holding NV

Okay. Jacques van den Broek, again. We definitely think Education will last. It should last for a long time, okay? On a more general note. Seriously, looking at the business, it's a very seasonal business as Robert alluded to earlier. So in August, schools are closed. And the main part of the Education business is really a day-to-day business. It's filling in people on the short-term.

So on the one hand, it's a volatile business, difficult to predict. On the other hand, we started the academic year really well, with again, double-digit growth. And at the same time, we're investing in this business to take more of this growth going forward, so quite optimistic on that one.

Your more general question on the public sector, I cannot answer in detail because really, education is most of the business we have there.

Q Robert Plant JPMorgan Securities Plc

Thank you, Jacques.

Operator: Tom Sykes with Deutsche Bank is on line with a question.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Yeah. Morning, everybody. Just a couple of questions on Inhouse, actually. I wondered if you could give a feel for the scale of transfers that were made into Inhouse this year or in this quarter. And also, could you say how much of the CICE benefit from France that was actually felt in Inhouse, please?

A Ben Noteboom Randstad Holding NV

Yeah. The amount of transfer is not more than about 30% at this point in time. The big gains are the combination of new clients and higher market share at existing clients, which we usually see happening. I don't think the percentage of CICE is different in Inhouse than in the other staffing business. So I think you can apply about the average margin that we have in France.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Okay

A Ben Noteboom Randstad Holding NV

So it's gone up. It's gone up. It might be slightly more, but it's a very small difference.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Okay. So, I mean I don't know exactly how much of your Inhouse businesses in France. So are you able to put a number of that at all, please?

A Ben Noteboom Randstad Holding NV

Yeah. We can give you an indication. Give me a minute. It is bigger now.

A Jacques van den Broek Randstad Holding NV

Tom, you can find it in the annual report.

A Ben Noteboom Randstad Holding NV

Yeah, it's in the range of €500 million, €600 million, I'll give you the details, there's no secrets here. Yeah.

A Robert Jan van de Kraats Randstad Holding NV

Between €500 million and €600 million, Tom.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Okay, thank you. And then just, if I may, on your ability to grow and retain gross margin, I mean obviously you're going to get a bit more of a CICE benefit next year. You're going to annualize part of the benefit this year though, and you've been cutting your way to profitability, perhaps in some geographies and letting go of low-margin business. How confident, at this stage, do you feel that if you get back into growth, excluding the CICE benefit, you'll actually be seeing gross margin stability in Q4 and hopefully into Q1?

A Ben Noteboom Randstad Holding NV

Yeah, obviously, we can't forecast this, but quarterly if you look at what's happening in our main markets, of course, we had to rather make setbacks in margin mainly due to Social Security charges. This happened both in Germany and in The Netherlands. As you can see in The Netherlands, as we said, we had a good plan, I think, to compensate, but obviously, that takes some time. In Germany, we also needed some time to adjust all the charge, et cetera, we have in those countries. So in that respect, if you look at the biggest bleeders, the bleeders we had in gross margin, I think, those that have been fixed.

Then, we look at the normal market developments, because that's in the question. And I'm more pessimistic here, if we reach the market improving, then we have always seen that weather delay, you also see two effects. One is you'll see that the pricing power shifts, that means we will have better margins at our clients, not by the old levels but improved. And the other one is, of course, that the business mix improves, because both perm and I think we have a fantastic opportunity here, because we have probably 1,500 consultants more trying to sell for them than we had in the past. And we will have more Professionals business later in the cycle, so that also will have a positive effect on our gross margin.

The average gross margin is not necessarily a reliable indicator of profitability, but it will lead the mix improvements like that...

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Yes.

A Ben Noteboom Randstad Holding NV

As I just described, and obviously, it inevitably will have an effect on the profitability. So in that way, unless the market changes a lot, we are not pessimistic about being able to have a better profitability next year.

A Robert Jan van de Kraats Randstad Holding NV

And adding something to the CICE comments, in general, I'd like to make sure that people understand the full picture here. On the sort of the effect here because we generate those provisions but these are paid asset tax credit that means it takes three years before the money arrives at Randstad.

The second point is that because it's a tax credit. It also reduces the impact of the regular tax planning at Randstad. So in terms of, let's say, in the net sensitivity for CICE, it's less than the result that's coming through at the gross profit line clearly.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Thank you. I think, just what I'm trying to get to on the Inhouse business is that you obviously got a CICE benefit there. You're up by 13% in revenues, some of which are transfers, and then you're up by 30% in EBIT. I'm just trying to work out how much of would you have got gearing in the Inhouse business if it wasn't for CICE or would you expect the revenue and profitability to be...?

A Ben Noteboom Randstad Holding NV

Yeah. I think I think based on the information we gave you, the calculation is not so tough anymore. And to be honest, I don't want to be impolite. These are a lot for two questions, I think. We just think we'll move on to the next one. Thank you.

Q Tom Sykes Deutsche Bank AG (Prime Brokerage)

Okay. That's fine. Thank you.

Operator: Laurent Brunelle from Exane BNP Paribas is on line with a question.

Q Laurent Brunelle Exane SA (Broker)

Yes, good morning, Laurent at Exane BNP, two questions, if I may. First, looking at your top line development, I mean do you see recovery in the end markets in Europe today or is it just the reflection of your comps? And maybe, can you say a word on October trends?

And so, going on the French social plan, when do you expect the payback for the €22 million? And can you elaborate a bit more on this organization, please?

A Robert Jan van de Kraats Randstad Holding NV

Yeah. On the first question, so what do we expect in October? What exactly was the point you were trying to get?

A Ben Noteboom Randstad Holding NV

Growth rates.

A Robert Jan van de Kraats Randstad Holding NV

The growth rates, yeah, okay.

Q Laurent Brunelle Exane SA (Broker)

Yeah.

A Robert Jan van de Kraats Randstad Holding NV

If we are optimistic about Europe? That was the question, more or less?

Q Laurent Brunelle Exane SA (Broker)

Yes.

A Robert Jan van de Kraats Randstad Holding NV

Yeah, now, we have. The trends are positive. Again, we've seen growth in September. We see main markets improving. And we usually have a very favorable mix. At this point in time in the cycle, the mix is a little bit less favorable because, obviously, The Netherlands and Belgium and France are lagging behind a bit, but also improving. It's inevitable if one of the big engines like Germany is actually growing, if we see growth in Iberia, if we see growth in the UK, if we see growth in Italy, it's inevitable that the Rest of Europe would not follow. So again, there's a strange event that would actually drastically change the cycle, there's no we don't see any reason not to be optimistic. I mean, let's not get overexcited but the trend is for sure positive.

A Jacques van den Broek Randstad Holding NV

Maybe a bit more elaborate on France, because we just touched on the fact that we'll have bigger branches in the metropolitan areas. But of course, we're doing much more in France. The French business the old Vedior business was organized in a different way than we do at Randstad. They were in silos in a way, geared at certain profiles. We, in the bases, always have a geographical business and then, Specialties within the branches.

We have now changed the French organization into these regionals. So five regionals: Paris Metropolitan, and then, the four other corners of the country. We do feel that's a type of organization, which suits our purposes much more. So we're very optimistic about the outcome of that. At the same time, we're creating these bigger branches, which will definitely help.

And then, back to your question on the cost advantages. So it's going to be around €10 million immediate return on less personnel. But as Robert Jan already mentioned, the impact of the change in branches is much more long-term because we have to really close 275 small spaces we have to open up 65 totally new one, so that's quite a long business plan, if you may. So that will come into the P&L on a much more gradual basis.

Q Laurent Brunelle Exane SA (Broker)

A bit clear. And just on France, so the exit rate was minus 3%. Do you believe that you can return to positive growth very quickly, I mean, given your comps?

A Jacques van den Broek Randstad Holding NV

Yeah. Well, as we mentioned here, so you also see it in the prism numbers. The market is improving although this is still largely fueled by comparison. So as Robert Jan showed you earlier, we still had quite tone down in Q4 last year, also on permanent placements, so comparisons are good. It's not that we're seeing an absolute return to growth based on increased demand.

A Robert Jan van de Kraats Randstad Holding NV

Yeah, sure.

Q Laurent Brunelle Exane SA (Broker)

Okay, thank you very much.

A Ben Noteboom Randstad Holding NV

One more addition though, I overestimated the In-housing funds a bit. It's a tad below €500 million. That was still for Tom, but growing obviously. So we'll get to €500 million to €600 million, yeah.

Operator: David Tailleur from Rabo Bank is on line with a question.

Q David Tailleur Rabo Securities

Yeah, good morning, gentlemen. If I may, quick comment then, thanks a lot for all your efforts last year's. And Jacques, congratulations of course. So, questions on Germany, I see you falling, decline of, let's say, 4%, if I use the same calculations as you are preparing, and a 1% increase in SG&A. Is that a reflection of your, say, short-term expectations in terms of German or only you?

A Ben Noteboom Randstad Holding NV

Okay, no, David, the increase is mostly as mentioned in general note marketing because Germany is definitely one of the companies where we have campaigns. And also, yeah, on a positive note, bonus accruals. So not so much head count, David. Just a short word on Germany, what's going on, because as you know, there's currently coalition talks between Angela Merkel, CDU and the SPD.

One major topic here is implementing a minimum wage, which is supposed to be €8.50 for the whole of the country to be implemented first of January in the Western part. It's still a debate in which phasing this is going to kick in, in the Eastern part.

So, overall we don't know yet the absolute effects of a new coalition in Germany. The system in Germany always works that politicians, politics, government gives guidance, but then it's up to social partners to work out the details. So there's some unclarity still that we need to wait for probably the next few weeks.

Q David Tailleur Rabo Securities

And do you see more downside or upside risk in this?

A Ben Noteboom Randstad Holding NV

Yeah, we, in general, think that there's of course long-term upside in effect that people are paid well, although in Western Germany the impact will be limited, because many people in our collective labor agreement are already above the minimum wage. So we're kind of neutral on this one.

Q David Tailleur Rabo Securities

Okay. And then a quick one on the UK, the perm is down by 2%. If I see some competitors reporting quite some growth, Inhouse.

A Ben Noteboom Randstad Holding NV

A large part, David, is forex. So, again, as mentioned, if would you look at fees in pounds you probably see

A Robert Jan van de Kraats Randstad Holding NV

7.5%

A Ben Noteboom Randstad Holding NV

7.5% growth, but then it translates into euros and then you're down.

Q David Tailleur Rabo Securities

In Iberia, [indiscernible] the market is doing a bit more?

A Ben Noteboom Randstad Holding NV

Sorry, I didn't get the message there.

Q David Tailleur Rabo Securities

Sorry, Iberia is doing 1% as I think the market is growing by at least 5%. Is that the impact of the USG integration?

A Ben Noteboom Randstad Holding NV

Yeah. Correct. That's what it is. It has to do with the selection of clients. And, David, just to make sure that we have the UK perm fees clear, it's minus 2% in UK sterling. It improved from minus 13%, and the month of September showed growth.

A Robert Jan van de Kraats Randstad Holding NV

Okay. Next, please?

Operator: Marc Zwartsenburg from ING is on line with a question.

Q Marc Zwartsenburg ING Bank NV (Broker)

Yeah. Thank you. First of all, indeed, congrats to you, Jacques, and we're looking forward to the farewell drinks invitation, then. Then, two question from my side. On SG&A, first, I want to clarify a little bit on the French savings because I heard, I think, Robert Jan speak about €22 million savings, but in the press release and also on the slides, I read €10 million. Is that because €10 million is set for next year and there will some phasing later on that it will eventually be a higher number?

And then, continuing on SG&A, looking forward to Q4, there's some cost savings kicking in. Maybe you can elaborate a bit on what we should expect for Q4. And then, we have some €10 million more marketing spend and bonus accruals. Can you, a little bit, give a feel for the cost base for Q4 versus Q3? Whether that will obviously be up, I think, but is that a significant amount or a small amount? So that on SG&A.

Then my second question is, on the CICE Act. Again, coming back on that, I think Robert Jan, you mentioned that underlying the impact was 300 basis points, but I thought it was 270 basis points. So maybe you can clarify what was the real impact of CICE in Q3 on the margin?

A Robert Jan van de Kraats Randstad Holding NV

Yeah. I'll take your last question first, Marc. The 270 basis points was Q2, which included an adjustment for Q1. So the €200 million is just Q3 sorry, the 200 basis points is just Q3.

Q Marc Zwartsenburg ING Bank NV (Broker)

Yeah. That's true. Okay.

A Robert Jan van de Kraats Randstad Holding NV

And now back to SG&A, the French development, just to make sure that it's clear. What I mentioned was that originally, we set aside €28 million. This was now reduced to €22 million. The €22 million mostly relates to people, roughly €15 million. That mostly relates, as also Jacques pointed out, to management. And we expect to see the savings relating to this investment of €15 million to come in, in Q4 and the amount will be roughly €10 million. And that is because severance payments are a little higher than typical. And this is the annualized amount, by the way, €10 million on an annualized basis.

And please note, again, that severance pay is a little above average here, so typically, and we evaluated that, reorganizations in Randstad return within 12 months, not this one. And then the remainder relates to branch closures and movement to larger branches, and that also was, I think, well explained by Jacques. We'll see savings coming in, but that will take longer.

Q Marc Zwartsenburg ING Bank NV (Broker)

That's beyond 2014?

A Robert Jan van de Kraats Randstad Holding NV

The return will be a little lower than we normally have. Sorry, Mark?

Q Marc Zwartsenburg ING Bank NV (Broker)

No, that's clear now.

A Robert Jan van de Kraats Randstad Holding NV

And then Q4, I think your conclusion is right, we're going to see a slight increase of the costs relating to the items you mentioned, for example, the marketing. So I don't want to sort of pinpoint at a precise amount, but just a few million more than that it was in Q3.

Q Marc Zwartsenburg ING Bank NV (Broker)

Clear. And maybe a final one, did trend in Spain ex-USG what was the growth there and do you still track that?

A Ben Noteboom Randstad Holding NV

Yes, it was a think it was the quarter of the business. It was a few percent difference. I don't know the the USG business was in decline and we were growing, it's about 25% of the business.

Q Marc Zwartsenburg ING Bank NV (Broker)

Okay. So closer to 5%, that David mentioned?

A Ben Noteboom Randstad Holding NV

Yes. Spain, excluding, was 2%, I just learned here.

Q Marc Zwartsenburg ING Bank NV (Broker)

Okay, clear. Thank you very much.

Operator: Jan de Vleeschauwer from KBC Securities is on line with a question.

Q Jan de Vleeschauwer KBC Securities NV

Good morning, gentlemen. Two questions from my side, please. First one on the Dutch market, your sales declined by 4% in the third quarter. This seems to be weaker than the market. Could you elaborate more on this, please? Is it due to your Professionals Staffing business or is it because of your focus on client profitability?

And then a second one, do you believe that if the positive trends continue in 2014 and growth accelerates gradually, you reach a 5% margin target in the third quarter next year? Thank you very much.

A Ben Noteboom Randstad Holding NV

Yeah, on the Dutch market, the big effect is Yacht. As we also shared with you it's minus 9%. So that doesn't help. The Tempo-Team is also below market and Randstad is a bit better, indeed. First of all that's one. The Yacht members are not the professional markets data are not in the data that are being released by the ABU every four weeks. So we think it'd be particularly below-market but not a lot.

The 5% for sure, as we said, is we need growth and we need a better mix. So it's a bit of a difficult question to answer. In the future if mix and growth are there, indeed, we'll reach the 5%. It is difficult to forecast the speed of the recovery of markets. Maybe, you think I'm a bit of a coward but I think it will be too courageous here to forecast that by, let's say, August next year, market will have developed in such a way that we will be able to forecast 5%. But we are very confident we'll get there.

Q Jan de Vleeschauwer KBC Securities NV

Okay, thank you very much.

A Ben Noteboom Randstad Holding NV

Jacques says, I could take risk this time, but that's not how we work, yeah.

Q Jan de Vleeschauwer KBC Securities NV

Thank you.

Operator: William Vanderpump from UBS is on line with a question.

Q William Vanderpump UBS Ltd. (Broker)

Good morning, everyone, just a question on Germany, please. Could you comment on the gross margin pressure? Is that just the equal pay effect or is there anything else going on that you could describe to us?

And just on Germany as well, in terms of the growth rates, obviously, good performance in the quarter and a solid exit rate. You commented on some pricing benefit dropping away. You've, obviously, got a much easier comp in the fourth quarter. Do you sort of see further acceleration in the German business continuing, please?

A Robert Jan van de Kraats Randstad Holding NV

Yeah. Well, the pressure in the German market is actually more a percentage-wise pressure because as you see, the bill rates go up with some 8%. Therefore, the percentage margin drops. But at the same time also, the percentage cost drops. So if you would go back to nominal margins, they have been quite stable and we're quite proud of our German management team on managing this quite massive change in the market really well. With a good IT support, they also created that.

Q William Vanderpump UBS Ltd. (Broker)

Okay.

A Robert Jan van de Kraats Randstad Holding NV

So that's absolutely positive news in a way. At the same time, yeah, improvements are slightly kicking in. So volume-wise, we're getting closer to the zero mark in the last few weeks, so actually, positive again there.

In comparison the difference falls away. So these increases started in November last year. And there, of course, you'll see a well, slightly more tough comparison from an absolute bill rate point of view. So that was the point we were trying to make here.

Q William Vanderpump UBS Ltd. (Broker)

Okay. So you could, I suppose if your price increases have all sort of annualized, you could. And then, potentially, drop back a bit closer to that volume number in the fourth quarter?

A Robert Jan van de Kraats Randstad Holding NV

Yes, as with many European countries, as already explained by Ben, we're also optimistic about the German developments in Q4.

Q William Vanderpump UBS Ltd. (Broker)

Okay, all right. Thank you.

Operator: Hans Pluijgers from Kepler is on line with a question.

Q Hans Pluijgers Kepler Capital Markets SA (Netherlands)

Yes, good morning, gentlemen. Two questions on my side, first, coming back on the gross margin in the U.S. If I make just a quick calculation, I come out at improvement year-on-year by about 100 basis points. Is that a fair calculation? And it's slightly less than what we've seen in the previous two quarters, an improvement year-on-year, is that a good calculation? Could you give some feeling on that?

And secondly, looking at your Inhouse, you also indicated that it depends for the EBITA margin for Inhouse could be between 4% to 5%, you gradually, slightly to above the 5%. Of course, partly supported by the CICE, but how do you see this on the longer term because you're still growing quite handsomely there? Do you see maybe in the longer term also some potential higher EBITA margins there?

And the last question on working capital, you said payables had a positive impact, could you give some flavor to that? What's happening there? And also in Q4 it would be a positive impact is it positive or negative?

A Ben Noteboom Randstad Holding NV

No, the gross margin improvement in U.S. is higher than you indicated. One, we're not in share the gross margin levels as we've mentioned before. The nice thing, of course, we share the 4% to 5% target for Inhouse. Usually, people don't get punished if they exceed their targets, and the same is true for Randstad.

Obviously, you should also realize indeed that we have the strongest season here, so in Q3, we always had the highest profitability. But of course, that largely also depend on the mix where will we see growth in Inhouse compared to profit levels, there's a variation there, so it's difficult to forecast. But indeed, we are very pleased with the 5.3%, and now Robert Jan will get the working capital.

A Robert Jan van de Kraats Randstad Holding NV

The working capital, the table's impacts. I tried to give you clarity by indicating the end-of-year position. And this is a difficult one because it's a relatively volatile and dependent on the sort of events at the end of a period. But the point I made was we anticipated the end of the year, as a result of the free cash flow, the payment of the tax amount of €130 million at the end of the year, we expect a somewhat lower net debt level than at the end of Q3, but not too much. And that is because of some of these payables will have a negative effect on Q4, so the benefit in Q3 will be reversed in Q4. So we don't want you to sort of plot last year's number directly on Q4 because that will be a little unfair.

Q Hans Pluijgers Kepler Capital Markets SA (Netherlands)

Okay, clear, thank you very much.

A Ben Noteboom Randstad Holding NV

Final question, I guess.

Operator: Arun Rambocus from Kempen is on line with a question.

<Q Arun Rambocus]: Thanks for taking my question. I have one left. Just quickly looking at the North American business. Obviously, quite satisfactory results, but if you look at the revenue trends compared to the ASA data, the American Staffing Association, which showed an acceleration, there is quite sort of widening gap. First of all, do you recognize the underlying accelerating trend in the American market?

And secondly, can you give a guidance on when you think the gap versus Randstad in the markets will become narrower despite the satisfactory results, obviously? Can you share some comments on that? Thank you.

A Ben Noteboom]

Yeah, we look at the gross margin line, Arun, to see whether or not we are in line with market. And then you look at staffing, which of course is the ASA, then we are more likely in line with market. So we are not too worried about that development. Despite of that, obviously, over time, we also will need to catch up top line developments. But again, the quality of our business has improved tremendously, the investments we've made in more permanent placement, more white-collar, Inhouse, blue-collar-only through Inhouse, if it's large scale, et cetera, et cetera, really has made a major difference leading to the record profitability we've had.

The area we are more behind market and I think where there's more emphasis necessary and we've also put it there now is the development of the Professionals. I think there, we are more behind. Those are not included in the ASA numbers.

<Q Arun Rambocus]: Okay.

A Ben Noteboom]

But still we know we are behind markets. Again, we've made some steps, amongst other things, change of management. I already mentioned that it was clear that we underinvested in some businesses. That actually had good growth opportunities, so next to better quality of business, which we did achieve in Professionals. We should have been able to capture more growth and we're now making the investments to make that happen ASAP.

<Q Arun Rambocus]: Okay, can I sneak just more in about the dividend policy, maybe an unexpected question, and maybe a bit early to discuss that part? But if I recall correctly, the dividend policy was changed last year, December, where it was guided 40% to 50% payout of the adjusted net profit, but it would come in at the lower end of this range. I mean, given the development in your cash flow and your net debt, and the fact that markets are improving what would make you change sort of now going to a more higher end of that range? Is it already the time to look at that?

A Robert Jan van de Kraats]

No, it's too early, Arun. And just to make sure our policy is 40%, but we have expanded the range of to 50% to take care of, let's say, special circumstances, and that is an evaluation that will take place later.

<Q Arun Rambocus]: But obviously, market trends have improved since you changed your policy and when you made your first comment about policy, right?

A Robert Jan van de Kraats]

Yeah, correct, because it will change into sales, Arun.

<Q Arun Rambocus]: Okay, thank you.

A Ben Noteboom]

Thank you, Arun.

<Q [Arun Rambocus]: All right.

Ben Noteboom, Chairman-Executive Board & Chief Executive Officer

All right, operator. Thank you so much. I'm going to close the call now because I think we've dealt with the questions. Thank you so much for joining us at this discussion and we look forward to talking to you again either soon or at least in February again at the announcement of our Q4 results. Thanks, bye.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.