



Q4 Results 2015

Thursday, 18th February 2016

Robert Jan van de Kraats, CFO, Randstad

Thank you so much. Good morning, ladies and gentlemen. Welcome to the discussion on our Q4 2015 and full-year 2015 results. I'm here together with both Jacques van den Broek and Arun Rambocus, but given the fact that we have a very nice result, the rest of the Board is also participating here. We have here Chris Heutink, Linda Galipeau and François Béharel, next to some other staff supporting us.

Today, we have also published our 2015 integrated annual report, which includes the 2015 audited annual accounts. The title of this annual report is Tech and Touch and you can find it on our website.

Also today, in the press release we have included a paragraph on the updated arrangement with our founder, which has been strengthened further and is now future proof. It confirms the existing long-term relationship and the focus on continuity.

Another point is, during our Capital Markets Day in November we have discussed the longer-term issues such as strategy, progress on strategy, including innovation, M&A, productivity and efficiency. Today we'll focus on a discussion on the results.

I'm taking you through the presentation now and then we'll follow with Q&A. I'm moving right away to slide 5, which summarizes our fourth quarter, which showed profitable growth. In our book this was a good quarter. And the key items of this quarter were revenue growth at 6.6% per working day. That compares to 5.4% in the third quarter.

And what we have seen in this quarter is that France has accelerated, while at the same time growth remained stable in North America. So next to the Netherlands, Southern Europe, we also have France up and running in the European zone.

The gross margin improved by 20 basis points, which was partly the result of the perm fees going up, which is now 9.7% of gross profit.

Our underlying EBITA arrived at EUR245m, which is a 4.9% EBITA margin. In an organic full-year, ICR, incremental conversion ratio or drop-through rate, drop-through of new gross profit into EBITA, of 52%, which gels well with our ambition of being around 50%.

Our adjusted net income arrived at EUR193m and an ROIC of 18.8%, which is even higher than last year's.

DSO, the key element of our balance sheet, arrived at 50.7 days, which also was an improvement compared to last year. And the leverage ratio of the Company stands at 0.2 at the end of last year.

The proposed cash-only dividend has arrived at EUR1.68, and that is a record high payout. It is in line with the announcements made at the Capital Markets Day.

The month of January showed us growth of 6.6%, and I'll get back to that when discussing the outlook. And the full-year EBITA margin arrived at 4.5%, which is in line with the guided range.

Moving to slide 6, again the margin is improving. We're on track. A few elements to mention on this slide. Full-year perm growth arrived at 14%. And again, the ICR, 52%, which was maintained throughout the year above 50%, which we consider to be in line with our ambitions.

Moving to slide 7, this reflects the Randstad world in the various regional zones. The topline remains stable in most countries. If you look at the developments in Europe, France accelerated ahead of markets and strong growth continues in the Netherlands, Italy and Spain.

A stable growth in North America, and certainly staffing performance in the US is excellent. But also, Canada is ahead of market in a very challenging environment.

In the emerging markets, we see growth held back somewhat because of challenging market circumstances. And the green line looks like it's reducing, but a big contributor here is the Japanese elections, which happened in 2014, Q4.

North America, on slide 8. Stable growth in US staffing. The revenue improvement arrived at 4%, in line with Q3. Perm was up again, and GP grew by 9%, also in line with Q3. The staffing business was up 7%, just a little better than Q3. US professionals, the revenue development was flat year on year, and we have an ambition here to get closer to market. Randstad Sourceright continued to show significant growth, at 16%. I'm very happy to see the EBITA margin for North America arrived at 5.6%, compared to 30 basis points lower the previous year.

In the Netherlands, on slide 9, we see growth -- solid growth continuing. Revenue again at 9%, close to the previous quarter. Perm growth at plus 3% this quarter. Our combined staffing business grew at 7%. If one would exclude the pay-rolling business, which shows a different trend, the growth in this segment would even arrive at 13%. Professionals, very successful growth, at 21%, even a bit higher than Q3. And the vertical approach we are applying here is clearly paying off. The EBITA margin slightly lower, mainly the result of investments made in our Sourceright business, which serves RPO and MSP clients.

In France, on slide 10, we see accelerated growth, ahead of market, even when adjusting for the relatively easy comparable of the previous year. Revenue up 10%. Combined staffing and in-house business, up 10%. And if you look at the construction segment, that has started to show growth as well now, finally. Professionals growing significantly, +10%. And also perm continues nicely. That results in a sizeable gross profit growth of 6%. Our EBITA margin, at 5.2%, which effectively, compared to last year, is a little lower, but the underlying trend is stable. Last year benefited from subsidy-related releases.

Germany, on slide 11, it's improving. It shows an improving profitability trend. Revenue, roughly at the same level as the previous quarter. Gross profit, up 13%, however. And SME shows growth that outgrows the large

client segment, which is in line with our strategy, as communicated. Last year was impacted by the complications of the 13-week rule. The EBITA margin improved significantly, and this is also resulting from the fact that last year we had to catch up at the end of the year because we were calibrating the impact of the 13-week rule. This year this was better managed and distributed across the year.

On slide 12, Belgium, a very nice level of profitability here, record profitability. We see growth moving to 6%, staffing and in-house even at 8%. Gross profit was also up by 8%. But we continue to focus here on client profitability, and there are a few deals out there in the Belgium market that we have rejected and we'll continue to be very selective here.

Iberia, on slide 13, strong growth continues on better margins, even, 11% for the region. In Spain, 16% revenue growth. Professionals continued to grow very high pace, 61%. And it's by now compared to more tough comparable. Also, our perm strategy works out quite well, but we continue to invest in growth in Spain.

In Portugal, this was a year of adjustments in the client portfolio, but now revenue is up 1%. Our contact center business continues to show good growth, and that results in improved gross profitability. If one looks at the details, for example DSO, that's also improving as a result of client portfolio selections. EBITA margin, up 5.2%, a good 5.2%.

In the UK, on slide 14, we see improvements step by step. The revenue is down this time by 4%. Gross profit was flat. But our specialties business is doing well despite a challenging market situation. Perm fees, 11% up. EBITA margin now at 3.6%.

Slide 15, the other European countries. We do see a strong growth continuing across the board more or less, in Italy, quite nicely, 19%. And our focus on specialties and perm is effective here. Also, in Switzerland we continue to see some improvements, now back to growth, at 3%, ahead of a difficult market. Also, Poland accelerated again.

In the Nordics, we are going to consolidate profits as from February 2016 onwards. We're very happy to have strengthened our position in the Nordics market, making us the third largest player now, with significant presence both in Sweden and also in Norway. Revenue growth at 7% of the -- this is the Randstad book, clearly.

Our EBITA margin, slightly lower than the previous year because of our investments in growth. But also, we did have a specific impact in the last quarter of last year due to a release of a provision.

The rest of the world, growth in challenging markets. I already mentioned the specific comparable in Japan, but Australia, New Zealand, grew 5%. Asia is now up 5%. Latin America continues to show growth, at 15%. Our EBITA margin is reflecting our focus that has shifted from growth to profitability, now at 1.5%.

Slide 18, on the financials, the P&L was more or less discussed. One element to address with regards to gross profit, if you look at our GP over FTEs, so a productivity indicator, it improved by 3.1%, which is slightly above the previous quarter.

Just below the line, amortization and impairment, it now includes our RightSmart acquisition in Q4. This was included.

And our net finance and associates reflect a positive amount that is the result not just of the fact that we have a very low net debt and that we pay very low floating interest rates, but also of the fact that we have sold a position, under associates disposal. And that was a position one next to some foreign exchange effects here.

Our tax rate comes in at 25.5%, a bit lower than expected at an earlier point in time, mostly the result of a revaluation of net operating losses.

The foreign exchange impact in this P&L for the quarter, EUR9m at the EBITA level. For the full year, EUR36m at EBITA.

On slide 19, performance by revenue category, the comments I think do explain it. We continue to make investments in staffing. We have a pretty good level of profitability now in the quarter, 5.3%. For the full year, 4.6%. Still room to improve here. In-house continues to do excellent, with good growth, 12%. And if you look at professionals, 5.8% now. It's leading the troops in terms of the returns, and that's the way it should be. We do see the IT vertical performing well, but also the Dutch professionals business is clearly contributing here.

Our gross margin, which confirms what I've said before, the permanent placement contribution here. We do see pricing pressure continuing in markets like the Netherlands, but its offset by price improvements in other markets, amongst which is the American market.

Operating expenses, this is a sequential comparison. So from Q3 to Q4 it went up sequentially, with a marginally negative foreign exchange impact. We continue to make investments in the countries where we do see growth, especially in FTEs. And we had somewhat lower commission than expected in the emerging markets.

Slide 22, the balance sheet. Net debt at EUR173m, the low leverage ratio. I'm very proud to see our DSO arriving at 50.7, which is due to successful management of overdues because we continue to see pressure in the markets on our agreed payment terms.

Our working capital now more normalized, at 3.2%. Last year was a very low point. That means if we grow, only 3.2% of revenues needed to grow.

Return on invested capital, again I'm very proud, 18.8%.

Free cash flow, on slide 23. Q4 showed growth of free cash flow by 28%. That's a pretty good result. You see purchase of ordinary shares here. That is the result of us repairing the dilution in the performance share plan.

For the full-year free cash flow, you see a moderate increase. But one needs to include here the fact that our provisions, the few lines above, have been used in 2015. They had been formed at the end of Q4 2014. They have been used in 2015. And next to that, we now have a normalized use, as I mentioned, of working capital as a percentage of revenues, going from 2.8% to 3.2%. If adjusting for that, a very normal picture.

Our outlook, on slide 24. Organic revenue growth came in at 6.6% in the quarter. January growth showed a level of 6.6%. If you look at the month of January, the Q1 comparison base is going to be 2.2% tougher.

I'm going to give you some indications on the revenue trend in the month of January. Due to working-day-calculation effect, we have again looked at this and we think that providing you with indications is more helpful than to give you precise rates. So the implied exit rate in the Netherlands is high single digits. In France, also high single digits. In Germany, its mid-single digits, so clearly improving from the level in the previous quarter, mainly as a result of pricing.

In Belgium, low single digits. In the UK, it continues flat. Iberia, low double digits. North America, mid-single digits. The rest of Europe, high single digits. And the rest of the World, mid-single digits, arriving at 6.6%.

Our volumes in the month of February, early February because the month is only 18 days old, they indicate a continuation of the trend. These are only the volumes that we measure weekly, but that is what we believe we see up until today.

Our forward visibility into March or into the second quarter is effectively absent. We have no recurring revenues that we can build any expectations on, so this is what we know. Sequentially, the gross margin is expected to be seasonally lower and we do not expect a relaxation of the pricing pressure, as mentioned, for certain markets. There is no significant working-day impact, however it should be noted that Easter falls in March this year, versus April last year. Of course, February has an extra day.

For Q1, we expect a moderate seasonal decrease in the underlying operating expenses sequentially, which is a typical trend.

And a final point to make is that we'll have our Annual General Meeting of Shareholders -- we're inviting you -- on March 31 in Diemen in the Netherlands.

On slide 25, a record-high dividend proposal, in line with our discussion at the Capital Markets Day. We have used the standardized formula. We adjust net profit for the dividend paid to preferred shareholders and the amortization of other intangibles. And we have agreed that, because of the strong financial position, the payout should be to the high end of the range, 50% full cash, arriving at EUR1.68.

In terms of our strategic progress and our ranges, I'm not going to discuss this extensively with you because we did so at the Capital Markets Day. I just want to point out that our 5% to 6%, in order to get there, I want to refer to the scenarios that we discussed at the Capital Markets Day. And in order to get there, we discussed a scenario with higher growth than we see today and then at the same time we have to make sure that our gross profit development and our mix development support this as well.

So summarizing, on slide 27, again the key elements that I discussed with you at the beginning of this presentation.

We now move to Q&A. Operator, please.

Q&A

Operator

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

<Q – David Tailleux>: Yes. Good morning, gentlemen. Two questions, first of all on the US. Could you maybe give a breakdown between your blue collar and your white collar segment in terms of organic sales growth? I know it's not in the press release, but maybe you can shed a little bit more color on that.

And then secondly, on your dividend, at EUR1.68, could we use this as a floor for the coming years or do you really believe that, in synch with earnings trends, the payout could decrease and EUR1.68 could easily fall in synch with earnings declines potentially? Thanks.

<A - Robert Jan van de Kraats>: That's a challenging one, David, the last one there. We're happy with a record dividend and then you ask us if this is continued going forwards. And we also made clear that, given the balance sheet, we have now not given the option for stock dividend. If we see growth continuing long term, then for sure our dividend will grow as well. But as I mentioned, we have no clue what the growth rate will be going forward. So dividend will be a function of the success of the Company.

<Q – David Tailleux>: Yes. If I may, a quick follow-up on that because if you look at your balance sheet you would have sufficient room to keep it stable even if your earnings would drop by, let's say, 10%, 20%. But it will be a function of earnings?

<A - Robert Jan van de Kraats>: And a function of course of M&A, and we made that also clear at the Capital Markets Day. We have a pipeline. You've seen profits coming through now. We continue to look at targets, but they need to be -- yes, they need to fit our requirements, and that is not -- that's challenging. So we expect to be successful in some cases, but we'll see again at the end of the year.

<Q – David Tailleux>: That's very clear. Thanks. And maybe the first question?

<A - Robert Jan van de Kraats>: Yes. Linda?

<A – Linda Galipeau, Executive board Member>: Yes. On the US, I'll speak directionally, certain blue collar was the fastest growing segment and continued strong and started strong. So good trend on the blue collar side. If we are thinking about the net fee line on the white collar and professional side, permanent continues very strong, so it's all how it washes out on the gross margin line. So I would say no clear weakness in any segment and no significant change in any of the trends, though certainly blue collar remains our strongest growth area.

<Q – David Tailleux>: And does it mean you're taking share or do you believe the market in itself is also stable? Because some of your competitors are actually not as bullish as you are.

<A – Linda Galipeau>: Yes. It's clearly both. We don't see -- we judge market by growth and existing customers and that remains strong. We judge share by winning new customers and new program, and it's about 60% new. 60% of the growth is coming from new wins, 40% from the market. So I think we are picking up share and the market's fine.

<Q – David Tailleux>: Yes. That's very clear. Thanks a lot.

Operator

Thank you. Our next question comes from Chris Gallagher of JP Morgan. Please go ahead.

<Q – Chris Gallagher>: Good morning. A couple of questions. The first, just could you talk a little bit about some of the pricing pressure you're seeing in the Netherlands and France, whether that's intensifying?

And then secondly, just on healthcare costs in France for this quarter, can we get some guidance on how much that could impact the margin? Thank you.

<A - Robert Jan van de Kraats>: Yes. Well, pricing pressure is continuing, and you see it in tenders there. So certainly our French and our Dutch business, they are -- they do have quite a lot of big clients there for big tenders. And in these markets there are competitors who are underperforming their market, so apparently that's the reason for some price aggression. We do see the same names, and I'm not quoting these names of course. That's not elegant. But certainly in the Netherlands we take our role as a market leader. By the way, also in Belgium, where we are selective. So we do like to outperform markets, but, well, time will tell because it's a trade-off.

And in France, yes, we're outperforming. We're taking a lot of market share through our in-house business. And yes, again, some parts are growing less. And we see them as aggressive players. We try to offset this with our delivery models to get a higher productivity, but it's definitely a trend. We cannot deny it. The only thing I can say is we are not initiating it.

<Q – Chris Gallagher>: And just on that, sorry, given one of your biggest competitors has mentioned they want to go upmarket and they might not have been doing so recently, do you think there is a chance it gets worse?

<A - Robert Jan van de Kraats>: Yes. Well, I don't know. I always find it a stunning lack of creativity to compete on price. I think it's very bad for the long-term outlook of the market. I also think there's different reasons to compete or different ways to compete. But I cannot influence my competition, so that's up to them. We'll see.

Your question on the impact of the healthcare cost in France, we expect a small impact from that given the market situation, which was just discussed. Offsetting this with prices increases is a bit more complicated. That's why we expect to see some impact of that in our P&L of the French business.

<Q - Chris Gallagher>: Okay. Thank you very much.

<A - Robert Jan van de Kraats>: Restrict to asking two questions. If others could stick to that as well. Thank you.

Operator

Thank you. Our next question comes from Toby Reeks of Morgan Stanley. Please go ahead.

<Q - Toby Reeks>: Hi there. I'll stick to my two. You've given a level of global MSP revenue under management, up 14%. Is that a strong level? Could you give us an idea of what that's been growing at? And then could you -- as part of the same question, could you give the level of actual revenue from you guys attached to that?

And then the second question would be, you've indicated that your UK specialties business is performing well in an increasingly challenging environment. Could you talk a bit about which specialties, what you're talking -- mean about the increasingly challenging environment, and then maybe an outlook for the UK, particularly as we head towards the referendum. Thank you.

<A - Robert Jan van de Kraats>: Yes. We're looking up -- so if I understand you correctly, you are referring to the total volume of our business in MSP or RPO or --?

<Q - Toby Reeks>: You gave global MSP spend under management was up 14% in the quarter.

<A - Robert Jan van de Kraats>: Yes, that's true.

<Q - Toby Reeks>: Is that a particularly strong number? Is that an acceleration, deceleration? And then could you give what that actually means for you in terms of revenue or gross profit? Thank you.

<A - Robert Jan van de Kraats>: Of course. The revenue in MSP is always low because we just get the fee, so the trend of the spend under management is of course, yes, 14% growth. Is that good or not? Depending on who you ask. When I talk internally I always say it's not good enough. We do think it's an okay number.

Maybe more telling is the RPO revenue, which is 22% up. And that's really fee-based, profitable business, whereas the business model in MSP is also, for us, far more important to deliver into these MSPs, which is a different number. And that revenue is just collected in the revenue of our business (multiple speakers).

<Q – Toby Reeks>: But is that 14% an acceleration, a deceleration? Could you give us an idea of what that -- how that's trended over the last four quarters?

<A – Linda Galipeau>: Yes. Well, a large chunk of our MSP of spend under management is in the US, where the acceleration is even at a higher level. And I would say that the MSP market in the US is probably more mature in terms of new product adoption. So we have definitely won a record number of new clients.

I think the other thing to read into that number is that MSP in the US, which was traditionally more of a vendor-neutral environment, there is an increased pressure or drive from the client to have a vendor-positive environment, meaning they want to do business with a company that is doing more than just vendor management, that's providing a little bit more on the supply side. And the solution design and what we've talked about for some time, the total talent architecture within the MSP program, we're definitely seeing an increasing demand for that. And we are a first mover in that space, in the US and globally.

So I would interpret the 14% to be both a strong demand in Europe, a growing demand in Europe, and us picking up share globally, most particularly in the US.

<A - Robert Jan van de Kraats>: And it's not significantly different from the rest of -- it's clearly ahead of the growth of the Company itself. And we don't disclose the underlying revenues. We have a very high level of disclosure and that's what we'd like to stick to.

<Q – Toby Reeks>: Okay sure. And then on the UK?

<A – Linda Galipeau>: Yes, on the UK. Yes, the UK had a disappointing second half of the year. Where we're definitely seeing improvements in the specialty business is in some of our alternative delivery there. Our Sourceright business performed particularly well. They were definitely the shining star in the fourth quarter.

Underlying our [CP&E] business is still very healthy. Our education and care business is still very healthy. Some of our other segments. It is a tougher market but we also have a performance gap to market that we're working hard to close. But a lot of the alternative delivery, direct deliveries through the MSP and RPO programs is what's supporting the growth at the moment.

<Q – Toby Reeks>: Okay, thank you guys.

Operator

Thank you. Our next question comes from Paul Sullivan of Barclays. Please go ahead.

<Q – Paul Sullivan>: Yes, good morning, everybody. Just some color on the German market situation, from a volume standpoint. It sounds like it's still pretty flat. Is that the way we should think about it currently? And what's going on in auto in particular? That's the first question.

And then just coming back on the US, it's interesting that you're doing so well on the blue collar side of things. The backdrop in manufacturing and light industrial seems to be pretty challenging. Everybody's talking about the industrial recession. Where do you see the disconnect there?

<A - Jacques van den Broek, CEO, Randstad>: Well let me do the German one and then Linda will pick up on the US. We do see throughout the year in Germany a quite consistent improvement in volume and indeed also pricing is improving.

And we see Germany improving throughout the fourth quarter also and then into this year. So I've got a feeling - of course, a lot of the volume, well, less volume development in Germany compared to the rest of Europe was due to the regulation change, which put a bit of a damper on the volume development for the last two years. That seems to be easing out and we do see this steady volume increase.

On auto, there are a few auto clients who not so much complain about volume developments. Underlying, we see slightly less development in volume. But that's again due to regulation.

There is a regulation in Germany that if a temp has been working for two years then they -- something needs to happen. And we do see with some of our big auto suppliers that there is some increased hiring of our temps, which of course is good for the temps in general. But we have slightly less development.

But overall, well we're quite happy with the developments in Germany currently.

<A – Linda Galipeau>: On the blue collar side, logistics is definitely driving the growth more than manufacturing. I would also say, when you dig into our numbers -- and this is true actually in all of our business lines in the US -- the branch business today is not what's driving the growth on the contingent side, on the temporary side. The branch business remains very strong on the permanent placement side but we see the demand in temporary is being driven by our solutions. In blue collar, that's RIS. This remains a very unique product offering in the US and it is definitely the locomotive on our growth train, there's no question about that.

But that's true across all of the sectors. It is the solutions, the more strategic business offerings that are driving growth far more than the traditional branch offerings. And I think we've just gotten ahead of the market in that regard and it's helping us right now.

<Q – Paul Sullivan>: Great, thank you very much.

Operator

Thank you. Our next question comes from Tom Sykes of Deutsche Bank. Please go ahead.

<Q – Tom Sykes>: Yes, morning, everybody. Just, sorry, another question on the US first. It's just the outlook for profitability improvement in the first half. So what are your headcount ambitions?

And then also, what indications or clarity can you give us on movement in non-wage labor costs? So [SUI] and workers comp, please.

And then just on the Inhouse business, so obviously your organic growth overall for the Group there seemed to be -- sorry, for the Inhouse business seemed to be about 12%, organic profits up 5%. Is that a function of pricing pressure, is it a function of investment to drive the topline growth? Could you just be a bit clearer about the profit outlook for the Inhouse business, please?

<A - Robert Jan van de Kraats>: Okay, these are three questions, Tom.

<Q – Tom Sykes>: I know, sorry.

<A - Robert Jan van de Kraats>: But I'll help -- you're naughty. I'll take the first and last one. In the returns in Randstad Inhouse, there is a one-off case that we have settled which has an impact specifically on the returns here. So you should adjust for that and then the pattern is normal.

Your first question on future growth in FTEs in the US, it's the ICR that we are following here. So the drop-through rate of new gross profit into EBITDA. And that's where the US staffing business has been growing for quite a few years now.

And that means the 50% is at the high end of the range. So as they are in the fourth quarter, going forward they'll be a little lower. But that's the way we measure the business. Professionals is early stage of growth, but it is professional business where it always starts at a lower level. The ICR, that also steers it. So everything will be dependent on the rate of growth.

Second question, Linda.

<A – Linda Galipeau>: Yes. Workers comp costs are now stable in the US. A couple of years ago we did a lot of work on that. And I think we've brought them so I think on a percentage basis, they'll vary based on our mix. Obviously blue collar is higher than white collar. But I think that within each of the segments, they'll remain stable at this point. We don't see additional upside there.

In terms of SUI, indeed the SUI environment going into this year is slightly better. That is far more impactful on the commercial staffing side than on the professional side certainly.

We are also seeing a little bit of wage inflation. We want to make sure that our flexible workforce is appropriately paid, in line with the outside market. So we are reviewing pay rates and certainly passing those increases along to the clients. The clients participate as we react to the market on the wage levels.

So SUI, yes, it is a favorable environment. It's not fully quantified yet because we're still hearing from some of the states. And so maybe at the end of the first quarter we can provide more guidance. But that would be a small upside there.

<A - Robert Jan van de Kraats>: Finally on the ICR in North America, if you are going to adjust for this Inhouse case that I mentioned, the ICR over the last quarter was just north of 30%.

<Q - Tom Sykes>: Okay, thank you very much.

Operator

Thank you. Our next question comes from Marc Zwartsenburg of ING. Please go ahead.

<Q - Marc Zwartsenburg>: Yes, thank you, good morning. Robert Jan, you mentioned that you still have an active pipeline on M&A. But is there any change in your view or are you becoming a bit more hesitant to do acquisitions due to the increased macro uncertainty? That's my first question.

And the other one is on your slide on track. One of your assumptions says mid-single-digit sales growth in 2015 and 2016. I know what you said in the Capital Market Day, but does it mean that with the increased uncertainty that perhaps you do less investments or less spend on marketing just out of caution? And therefore that the ICR might come in a bit higher for 2016 than you initially thought (inaudible)? Is that what I should read into mid-single-digit sales growth that, say, around 5% is already enough. Those were my two questions.

<A - Robert Jan van de Kraats>: Yes, Marc, indeed, scenarios. We will respond to whatever happens in the market. And our outlook into March and Q2 is effectively non-existent. So it will very much depend on what's happening there. And then we will at every day reconsider our position and in that context look at whatever investments we want to make. So I think the assumption you're showing is not the one that we have on the table.

On M&A, the increased uncertainty in the financial markets, we also have noted clearly when we prepare for M&A, we do extensive DCFs. And these DCFs always include peak and trough calculations. And timing of the peak and timing of the trough, that's where we have sensitivities. But this is how we try to prepare. If we see growth trends changing in the market, we probably will change those data points in our DCF calculation to all the moments in the timing. And that will have an effect on our valuation and that then will have an effect on our willingness to pay a certain price. So this is how we try to drive ourselves.

<A - Jacques van den Broek>: And Marc, good morning, Jacques here.

<Q - Marc Zwartsenburg>: Good morning.

<A – Jacques van den Broek>: We don't time M&A on where we are in a cycle. We time M&A because we want to create better positions either in regions such as profits or in professionals portfolio, whatever. And then if everything works, from a DCF point of view but also from -- is the target willing to be acquired, then we're going to do it. If the market is then at minus 5, well, then too bad, but that of course also has some upside on price.

And we want to stay within the bandwidth of our financing. So that the overall cost burden or investment burden doesn't really make us -- or gives us a lot of heartache. So it's more of a long-term vision than just where the cycle is currently.

<A - Robert Jan van de Kraats>: Yes, and in Jacques's example, if we have a negative market then that has a direct impact on our DCF and as such on our willingness to pay a price. We have been rather, I would say, disciplined. If you look at our most recent acquisitions over the last couple of years, we have been rather disciplined and we intend to continue doing that. If you look at our pipeline, the fact that we haven't announced too many deals is very much the result of that.

<Q – Marc Zwartenburg>: Okay, now that's very clear. I just wanted to get a feel for whether the financial markets indeed and what's going on around in terms of PMIs is affecting your view on this year and perhaps on the cycle or in terms of M&A. But that's a clear answer, thank you.

Operator

Thank you. Our next question comes from Hans Pluijers of Kepler Cheuvreux. Please go ahead.

<Q – Hans Pluijers>: Yes, good morning gentlemen, a question -- and lady of course, sorry. A question first of all on the pricing, coming back on that. (technical difficulty) feeling is that there was a shift, let's say, from the pressure from the clients more that now the pressure is coming from the competitors on pricing. Could you a little bit elaborate on that, what you see there, see the clear shift?

And secondly on the outlook for the Netherlands and investment, because over the last few years you have been -- or last year been growing quite significantly. Are you there now close to maximum capacity? Do you plan to put in some additional headcount? If you could elaborate a little bit on what you are seeing there.

<A - Robert Jan van de Kraats>: Yes, it's always a bit of a difficult question where the pressure comes from. Clients, certainly, when you talk to purchasing, [which was] large tenders in France and is the case, it is of course their objective to lower the price. So that's where it starts. Yes, and then someone gives in or someone doesn't give in. So yes, we don't really know, and by the way we don't really care where the pressure's coming from. Yes, I've got nothing to add to what I mentioned earlier.

We do see some funny deals. Sometimes it's also -- I didn't mention that but sometimes clients get bought by private equity and they want to manage cash and then you get some very funny requirements on payment terms. That's also sometimes for us a reason to walk away.

So again, we do see this as our role to keep a healthy environment going forward, sometimes at the expense of sacrificing revenue. We'll see how that continues into 2016.

<Q – Hans Pluijers>: Maybe one follow up on that because for last part Belgium had not been really mentioned as where you see some additional pressure.

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

<Q – Hans Pluijers>: And now you mention it. Is there something changing?

<A - Robert Jan van de Kraats>: Yes, well it goes up and down. Belgium as a market is less a large client market. But we have seen, like I mentioned that again in the fourth quarter a few large tenders coming in where we decline. And on the one hand we're getting, in fourth quarter, on the back of better (inaudible) closer to market. But given the sacrifice of these clients, probably will go down a bit in growth in the first quarter. That's too bad. But at the same time, we want to have a healthy book, so that's happening. So Belgium is then now -- we're on the radar screen again.

On the Dutch business, we have been investing because on the one hand we took out cost in the back office. But we have been investing certainly in the front end in our businesses, in our starting businesses. And if we see continued growth, we will continue to do so.

Although, in the Netherlands, it's less trade investment as in putting people in branches like we used to do. Where we've mentioned at the Capital Markets Day that more and more of our business currently, a little over 60% is not generated through the branches any more. So investments in the Netherlands are far more into technology and different delivery models and therefore different profiles in people. That makes it a slightly different way to look at it.

<Q – Hans Pluijers>: Okay, thanks.

Operator

Thank you. Our next question comes from Konrad Zomer of ABN AMRO. Please go ahead.

<Q – Konrad Zomer>: Hi, good morning, gentlemen. My first question is on the assumptions to get to your margin guidance of 5% to 6% in 2016. I refer to the slide where you mention mid-single-digit sales growth. I think that is what you've achieved and I think you're currently growing a bit faster. Did I misunderstand it when I thought I heard Robert Jan say, during the prepared remarks, that you need higher growth than what you

currently achieve? Because I think mid-single-digit is like 5% and you're doing 6.6%. Are you not on track to get to that margin?

And my second question is on the US professionals business which produced no growth in the fourth quarter. If we assume that the US economy will continue to grow but maybe not accelerate, and you've had five years of good growth, is it fair to say that it looks less likely that that business will start to grow for you going forward? Because I guess it would have happened by now if that business could grow in a healthy economic environment. Thank you.

<A - Robert Jan van de Kraats>: Konrad, on the assumption, as you call it, for margin guidance, I think the wording is wrong here. It was something we discussed at the Capital Markets Day in November. At that point in time, we said it's not guidance, it's scenarios. We just want to be very clear about that, explicit, these are scenarios.

And we also addressed the point you were now raising. And that is that in the meantime, between the first time showing this overview that you were referring to in 2014, and November 2015, something changed in the underlying development.

So the statement we made in November was that if growth would continue at the level that we saw at that point in time, which was close to 8%, just below 8%, then assuming a certain development in gross profit and mix changes which typically come with further growth, it should be feasible to arrive at the low end of that range. That's what we said at the moment.

So I was also very clear in the remarks during the presentation. The current growth rate is not enough to get there, clearly.

So the things you should keep in mind are, our profit is on market share, whenever appropriate. But at the same time, we need to make sure that we get decent returns here. The second point is that we look at ICRs. And that's where we gave you some guidance also at the Capital Markets Day that in every scenario should help you to get to a certain outcome. I hope this clarifies.

<Q – Konrad Zomer>: Yes, I misunderstood and I was slightly wrong-footed by the fact that the slide in your pack today still talks about the mid-single-digit sales growth. But I understand now and I misunderstood from your --

<A - Robert Jan van de Kraats>: No, and thanks for asking, Konrad, because this helps us to make sure that people understand this, thank you.

<A – Jacques van den Broek>: Just to clarify also a bit on how we manage the Company. So you saw with a competitor of ours what happens if you focus just on the percentage return. We're not managing the business on

the percentage return, we're managing the business on growth and the investments in growth. And then yes, profit as a result of that. So please keep it in that order.

Then on the US Linda, the US profs?

<A – Linda Galipeau>: Yes, US profs, the market is healthy, the IT market which is half of our business remains very healthy. We have an underperformance due to our failure to aggressively evolve the models on the professional side the way we have on the staffing side.

We continue to address that. We have new leadership on the F&A business which is a very strong business. And that's already yielding dividends. And the IT business, we are moving aggressively to accelerate the evolution of their delivery models.

So the market is strong, we're underperforming, I find that heartening because it's much easier for us to address our performance than the market. And I still think that remains quite an opportunity for us going forward. So even if other segments were to soften, which we have not yet seen -- but even if they were closing the gap to IT, there's certainly a lot of [uplift there].

<Q – Konrad Zomer>: Okay, thank you.

Operator

Thank you. Our next question comes from Laurent Brunelle of Exane BNO Paribas. Please go ahead.

<Q – Laurent Brunelle>: Yes, good morning. So two quick ones for me please. First in France, could you maybe give us some more color about the trends by segment? And you've been saying that the construction business was back to growth. Is it correct? And could you comment a bit on the manufacturing sector as well please?

And second, is there any new element regarding your cost-saving target for 2016, please? Thank you.

<A – François Béharel , Executive board Member>: Okay, so your first question regarding the sectors. So in 2105 -- Francois Beharel speaking, sorry. In 2015 all sectors had improved the pace. So clearly excluding the construction sector, minus 2% through the year, but the good news comes from Q4 because double-digit growth in construction. So it will help the total market, staffing market in 2016.

Automotive sector is doing very well. Also manufacturing. Also aeronautics and logistics. So as you mentioned before, everything is growing, excluding construction, but it's much better today.

The second point regarding cost savings, we are not concerned -- as a project concerned how [company] at the group level, also.

<A - Robert Jan van de Kraats>: Yes, just adding to what Francois said, we have had our EUR60m, EUR70m ambition and we're right on track here. Then, at the Capital Markets Day in November, we announced another element which is the IT datacenters and data communications side where we expect to see the savings coming in gradually. But that is going to happen following this year, after this year then. And it's going to be step by step.

And then finally, the final point to make here is we run productivity -- and Jacques referred to it just before -- we run productivity every day, through activity-based [field steering] we should show improved productivity. And that is what is leading us. So these bigger projects are to address the back office or to address structures like IT.

<Q - Laurent Brunelle>: Okay, thank you very much. And just maybe on France, could you remind me your mix? What is your exposure to consumption? Is it in line with the market, i.e. below 20%?

<A - François Béharel>: It's less than -- sorry, it's less than 20%.

<Q - Laurent Brunelle>: Okay. Okay, thank you.

Operator

Thank you. Our next question comes from Josh Puddle of Berenberg. Please go ahead.

<Q - Josh Puddle>: Yes, hi, good morning, gentlemen. First question, can you talk about why your perm growth slowed in Q4 in the Netherlands?

And then also, following on from that, in the last quarter you talked about significant marketing investment made in that market. Was this across all segments or was it specific to a certain part of the business.

<A - Chris Heutink, Executive Board Member>: Okay, there's three things in the Netherlands why the perm growth is easing a bit. The first one is a reclassification of what last year what we call perm business in Yacht. By the way, Yacht are doing very well. Not so much in the perm, mostly it's [accountant] and professional staffing. That gives a bit of a negative but it's more of a reclassification of revenues.

The second one is the fact that we've created EMEA Sourceright. So a European organization. And that part of the perm business has been, again, reclassified into that business. And that's a fast-growing area.

The third one is that it's growth over growth. So it is somewhat tougher to keep up growth. But we're working at it.

<A - Robert Jan van de Kraats>: But the 22% growth in RPO contains some of that.

<A - Chris Heutink>: Definitely Dutch business, yes, large client Dutch business.

<Q - Josh Puddle>: And on the marketing?

<A – Chris Heutink>: I don't recognize marketing investments in perm. There are sales investments in perm. So we've trained our people, we're going much more out to sell. But I don't recognize sizeable out-of-pocket marketing expenses in perm. So I don't know where you get that from.

<Q – Josh Puddle>: I thought you talked about last time a big step up in marketing investment made in the Netherlands market as a whole. I was just wondering which segments that was focused on?

<A – Chris Heutink>: So I mentioned in the Capital Markets Day, I think, the three commercial campaigns for [temporary team, Randstad] and Yacht. So that's true, you can see it on telly.

<Q – Josh Puddle>: Yes.

<A – Robert Jan van de Kraats>: But not specifically with perm.

<Q – Josh Puddle>: Okay, thank you.

<A – Robert Jan van de Kraats>: Just we invest in the branding of the three brands.

Operator

Thank you. Our next question comes from Yves Franco of KBC Securities. Please go ahead.

<Q – Yves Franco>: Good morning, gentlemen. Only one question left for me. I'm wondering a bit about Dutch building blocks into the EBITDA margin. It's fair to assume some pricing pressure in the staffing but can you give us some light on the profitability in the professional segment, given that it's growing at substantially higher rates now? We see a 20-basis-point decline in the margin year on year. So is that pure pricing pressure from staffing and investments being bigger than some savings or do we also see some slowing profitability in the professionals business area? Thanks.

<A – Jacques van den Broek>: There's two things that cover that development. First of all, we didn't mention it or Robert Jan did a bit, but it's a payrolling business. Our payrolling business is roughly 10% of our total revenue in the Netherlands. And quite a large client, if you might call it that, is the government. And they've issued an internal statement that they want to get rid of payrolling. I don't know why, you should ask them. But anyway, so that's quite a decline.

The funny thing about the payroll business is although it comes at a relatively low margin, it comes at a very high leverage because it's a fully automated or highly automated part of our business. So it eats into our leverage if you will.

The second one is the investments we're doing in the Sourceright organization. So we have created this European Sourceright organization. We are scaling -- we are upfront investing because we do think, and it's already going very fast, that this is going to be a big part of our organization. So we're investing in Budapest in

our sourcing center that you know of, we've invested in quite some product management and development. And that also eats into our leverage.

If you take those two out then the underlying development, including the pricing pressure by the way in the Netherlands, is quite stable.

<Q – Yves Franco>: Okay, and if you look at the costs taken out, investments done, that's broadly net flat or could you give some color on that on the Netherlands?

<A – Chris Heutink>: Yes.

<Q – Yves Franco>: Yes, okay, thanks a lot.

Operator

Thank you. Our next question comes from Suhasini Varanasi of Goldman Sachs. Please go ahead.

<Q – Suhasini Varanasi>: Hi, good morning. In the interest of time I'll keep it very short. Just one question. On the UK market, you saw a nice pickup in growth in perm, plus 11% in Q4. Can you give some detail on whether it was the market which drove this growth or whether it was execution by Randstad? Because some of the other data points you've seen on perm growth in Q4 were actually weak. Thank you.

<A – Linda Galipeau>: Yes, as I mentioned earlier, the perm growth in our traditional business was disappointing. So the uptick in perm is entirely related to an increased adoption of our Sourceright product. So what you're seeing is our increased ability to do direct delivery through our MSP RPO programs through Sourceright. That's what's driving the perm growth.

The underlying traditional perm market I think is challenging. And our performance against that market was disappointing.

<Q – Suhasini Varanasi>: Okay, thank you.

Operator

We have no further questions on the phone lines.

<A – Robert Jan van de Kraats>: Excellent. Well, ladies and gentlemen, thank you so much for joining us at this call. We're looking forward to either talk to you at the general meeting of shareholders later, in the month of March, or at the next announcement of the first quarter results in the month of April.

Thank you so much, have a good day, bye.
