



Q3 Results 2014

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Preamble

Good morning ladies and gentlemen. Welcome to the call on the third quarter results for Randstad Holding. I am sitting here together with a team including Jacques, Arun from Investor Relations but also Linda Galipeau from our American operations. We are going to discuss the third quarter results; and since the crisis, this is the best third quarter that we have seen.

Overview: stable growth

Organic growth

Moving to slide 5 right away, the header effectively says it all: it is continued, stable growth. It is important to realise that although organic growth came at 4.2% in the third quarter, compared to 4.5% in Q2, if you look at the comparisons from last year the trend improved from -/-4% in Q2 last year to -/-1% in Q3 last year, making a delta of +3%. Keeping that in mind, you could therefore say that the organic growth has continued at the same level. If you look at the month of September, it was slightly lower than the quarter; we know that also happened in June but these lines are never linear. It is sort of hovering around this level.

Gross profit

Gross profit is a bit more stable; throughout the quarter it was around 6%. Gross margin improved and the strategic focus on our perm business, including perm in our Staffing business, is clearly paying off, resulting in a growth rate of 15%, now bringing it to around 10% of gross profit. Professionals also showed growth at 9%; I will get back to the segmentation later on but that resulted in good profitability.

Operating expenses

Operating expenses have increased by €6 million, if you take constant currency, and by the way, the impact of foreign exchange at the bottom line is -/-€1.6 million at the EBITA line. We have seen headcount investments in selected countries or segments which are fully justified by growth.

Incremental conversion rate

The incremental conversion rate is for the EBITA that we have earned on the additional growth profit; you know we have an ambition, depending on the phase of growth which we are at but it arrived at a solid 66% for the group. As such, the EBITA margin came out at 4.7%, an improvement compared to 4.2% last year.

Breakdown by region

On slide 6 you can see contexts in which we have operated throughout the quarter. The growth rates are clearly visible here; the developments are a bit different country-by-country or region-by-region. The North American market is clearly catching up to a higher growth level, especially supported by our Staffing business in the US. And then, in Europe we see a growth rate that has been hovering around the same level now for a while.

If you look at the bullet points underneath you can see that the North America region and the Netherlands are showing accelerating growth in the third quarter, whereas we see stable growth in most European countries, with the exception of France and Germany, which are the most challenging markets. They are clearly the most challenging markets and I will get back to both.

We see double-digit growth in emerging markets and Australia, and we see growth at a stable level in our Japanese business.

Priorities

On slides 7 and 8 we have our priorities and the approach, the strategy, that we are following. However, I would just like to point that the details will be discussed at the Capital Markets Day on 20th November, so we will get back to it by then. Very briefly, for now, we typically serve our clients in the SME segment through the traditional model; it does not have to be but this is the standard. However, we try to service the large accounts through specific delivery models, as you can see here. We will discuss the details, including our total talent architecture approach, at the Capital Markets Day.

Underlying strategy

On slide 8 you can see the underlying strategy which makes us organise our work towards the growth of 5–6% EBITA. In the middle, you have heard it many times now, is activity-based field steering: that drives the commercial activities of our consultants in the various operating companies. Further to that, on the right-hand side, you see our management framework, which makes sure we do that in a very concise manner, very much focused on accountability, with tight pricing guidelines and a special focus on outperformance. If we do it right, for example, in operations like China and Spain, we put on the growth accelerator to accelerate the growth.

Performance in North America

I am now moving to slide 9, starting with a more detailed analysis of the various countries or regions. I will start with North America: record profitability and strong growth; we are very proud of what we have achieved here. The incremental conversion ratio arrived at 60%; that is pretty high, taking into account that the US Staffing business has been growing for quite a while now, effectively starting in late 2009. Typically you have to start adding substantial costs to support the growth but we still achieve productivity improvements here. Gross profit is up by 8% and the revenue trend is at 10% versus 6% in the second quarter.

We do see, in US Staffing and In-house, good performance in manufacturing and logistics, which effectively continues compared to Q2. However, admin is now also adding some power here and that creates the increase in our revenue growth. Perm is also strong here; it is strong across the group but certainly in the American Staffing business.

Moving to US Professionals, gross profit is up here 3% and revenue is flat, which is also an improvement. We see things gradually improving here, with the strongest growth in finance and accounting, where gross profit is up 8%, although there is also strong growth in engineering.

Sourceright shows record profitability and our MSP spend under management has clearly increased, by 43%. Canada has also improved somewhat, from -4% to flat and slightly ahead of market.

All of this has resulted in an EBITA margin of 5.7%.

Performance in France

France is a difficult market. Although we do see improving profitability and the recovery ratio is excellent, I have to say that we consider this market to be very, very challenging. It was at -1% in Q2; it is now at -4% in Q3. If we look at the Staffing and In-house segment, it is -5% but in In-house we are growing by 12%.

We have a strong focus on client profitability; this is a challenge. We are clearly supported in this market, if you look at the EBITA margin, by additional low-wage subsidies. The continuation of that in the longer run is doubtful and, as such, we have a clear strategy on retaining those subsidies, rather than sharing, because it is highly likely that these will disappear.

Professionals is at +1%, compared to zero in the previous quarter. However, Perm fees are up here in the French market; it is not an easy market, as I said, so this is clearly the result of a micro-strategy.

Gross profit clearly improved and by now the branch restructuring has been completed. The number of outlets is down by 100 – so 12% down – and we are now at roughly 750 branches in the French market.

We had a record profitability here as well but it is again supported.

Performance in the Netherlands

In the Netherlands we are very happy to report that we are closing the gap to the market. The gap to the market is clearly the result of circumstances in the market: on the one hand, too little focus on the SME segment, which has been addressed and is clearly paying off; on the other hand, pricing pressure. There is some unrealistic pricing in the Dutch market, both pricing itself but also payment terms and we have been very critical when selecting our targets.

Revenue is now at +4%, compared to the previous quarter at zero. Furthermore, Tempo-Team is now growing above market now, at +7% and we see that continuing. Randstad Netherlands is at +3%, with strong growth in the SME segments. Professionals also shows significant growth in this market, up 16%. In addition, Perm is also up here by 25%.

We have a slight cost increase in the Dutch business: FTEs are up by 3% and that is a reflection of the investment in growth areas; we also spent a little more on marketing. However, that is a typical seasonal pattern in these operating costs.

EBITA margin is at 6.3%. As you know, we are in the midst of a reorganisation, aiming at efficiency improvements, involving roughly 250 FTEs; as we always aim for, the payback period here is within one year. This is the result of integration, especially of back-offices of the various operating companies. Although we already have shared service centres, we are now taking it to the next level and this is the result.

Performance in Germany

Germany is another difficult market in Europe and we see continued market challenges. There is clearly an effect of deregulation, however Randstad is at-market, so this is a market issue.

Revenue is at +2% but volumes are negative and the price effect is now 6%. However, here again Perm is growing at 29%. Furthermore, if you look into the verticals, we see good growth in IT but also in In-house and our Tempo-Team business. We have a strong focus on SME and being very selective in the delivery models that fit our clients. However, we clearly see the impact of regulatory changes coming through; as a result of those our cost price has increased and in many cases there is no margin on that increase of cost price.

That also confuses the market slightly; we now see sickness pay sometimes being higher than the salary that a flex-worker can earn. This happens in the example where a flex-worker moves from one assignment to another against a higher hourly rate but then turns sick and then the sickness is paid on the basis of historical earnings, which were at a higher level. It can therefore be very profitable to be sick and that is, of course, a bad situation.

Operating expenses were retained at a flat level and the EBITA margin is at 5.4%.

Performance in Belgium

In Belgium we saw continued growth and we had very strong cost control. This cost control is the result of something similar we are now doing in the Netherlands, which happened in Belgium at the end of last year.

A clear efficiency improvement here resulted in an incremental conversion ratio of 140%. Revenue was strong, at 6% and even better than Q2, although somewhat easing throughout the quarter. There was a clear improvement in In-house but also a good growth in white-collar: Professionals were up by 14% here.

Gross profit improved by 10% and the EBITA margin, as a result of very strong operating leverage was up to 4.9%.

Performance in the UK

Slide 14 is on the UK, where we have a focus on profitability and as such, not so much on revenue.

Revenue was negative, at -3% but gross profit was up by 8%. That is the result of an improved mix: construction is still performing well, like Professionals. However, finance and IT remain under pressure in this market; these are more difficult segments, so as a result of our focus on client profitability we have seen some clients exiting and we think that is justified. Perm fees are up by 12%; it is roughly one-third of our gross profit here so it is an important part of the business in the UK.

Operating expenses increased slightly by 3%, due to investments in growth segments.

Performance in Iberia

In Iberia we see stable growth. Incremental conversion is amazing: 203%, so we do a lot more with, effectively, almost the same.

Revenue growth in Spain is at 9%; we see growth in automotive and manufacturing, as well as in Professionals and perm. However, we also see some loss of revenue; we are slightly

below market here, due to focus on profitability, and this is mostly the result of our selective approach to the acquired portfolio of USG.

In Portugal we saw growth at 9% and continued strength in the manufacturing and automotive sectors. Here we have a pretty strong focus on profitability, which includes an EVA approach here because of very long payment terms in the Portuguese market. We saw excellent EBITA here, of 4.8%.

Highlights from elsewhere in Europe

I will now present a selection of other European countries. Italy continued to do well and Switzerland was the same. Poland still had high growth: FTEs investments continued and Professionals is up 96%, starting to create a good base here as well. Overall strong operating leverage resulting in a good return.

Highlights from the rest of the world

In Japan we saw growth at 6%, mainly in logistics and retail. However, admin also did well and in our book we can see they are going well. Additionally, this year we have quite some investments in growth in various segments.

Australia and New Zealand are clearly improving at the bottom-line profit contribution. Asia also continued to do well, with China having very significant growth of 54% now; that really starts to count and results in additional profits. Latin America was up by 13%, and there we have a focus on productivity but also on repositioning. Overall, we continue to invest significantly in those markets.

Income statement

Moving to the financial results and the outlook, the P&L is just a reflection of everything that has been said so far.

At the EBITA level, foreign currencies only have an impact of -€1.6M. We also have some one-off costs which relate to restructuring, €5.7 million; this is mainly from the Netherlands and we expect more in the fourth quarter as we have announced in our press release.

The net finance cost increase is mainly due to foreign exchange as well. If you look at our syndicated loan facility, we now pay, I think, 0.6% interest. That is close to zero.

Key financial points for Q3 2014

I will now move on to the financial key points for Q3 2014. Our free cash flow is slightly lower than last year in the quarter; that is completely the result of, on the one hand, some growth but mainly the DSO, which showed a very clear improvement in Q3 last year, so there was a substantial benefit recorded in that quarter. That same benefit did not occur in this quarter, in Q3 2014 and if you take that out it is very comparable. Leverage ratio improved to 0.9% at the end of the quarter and interest expense was only €4 million. The effective tax rate amounted to 30%; guidance for the full-year remains 28–31%. The diluted EPS is now at €0.77. Finally, return on invested capital is at 14%.

Performance by segment

Looking at the segments, Staffing improved and please note the perm improvement here, 20%, which is clearly supporting the performance. In-house was at a still-remarkable, I would say, 5.3% EBITA; and this is our lowest-gross margin business. Its performance

includes growth in France and it pays an EBITA margin of 5.3% in the third quarter; an excellent component of our business.

Professionals is also catching up: that is good to see; I already referred to China just before but Belgium, the Netherlands, Iberia and Poland are also contributing here. The segment has a 5.5% EBITA margin now; we're not there but it is clearly improving.

Gross margin bridge

There is not much to say about the gross margin analysis on slide 22. 18.2–18.5% is mainly an improvement as a result of permanent placement, however it also the result of margin expansion in the UK, Belgium and the French market. Furthermore, as I said, Perm fees are now at almost 10% of GP.

Operating expenses bridge

The analysis of operating expenses is a sequential analysis: whereas the previous one was Q3 last year against Q3 this year, we are now looking at Q2 this year compared to Q3 this year, so sequential. You can again see the foreign exchange and some marketing spending was a little lower. Organic investments in the EU and in North America reflect our investments in growth areas, as well as some higher commissions due to growth in North America. I think, all in all, we had a relatively moderate increase here.

Net debt

Net debt was down by €129 million, year-on-year, as you can see here. I think the data here are all in line with what I mentioned before; these are more or less flat. However, we continue to see a push from large clients to extend payment terms; they effectively knock on our door as if we are a bank and we are not, so that must be a mistake. There is some confusion here which we are trying to sort of put back on their plates; that is a challenge and remains a challenge. There are, by the way, clear European guidelines here that no one really seems to take very seriously, so that is something which needs to be addressed by all of us. In the meantime, we continue to see improvement opportunities internally, which we are addressing structurally. Working capital, as a percentage of revenue, is at 3.5%; very moderate as well, I would say.

Free cash flow

I will now move on to the free cash flow, which I mentioned before, moved to €250 million, against €310 million, which was already explained. If you look at the last four quarters in the comparisons to the right-hand side of the page, you can see that the change in operating working capital is now 7, compared to 233 last year, which is growth. Furthermore, income taxes paid is a lot more in the last four quarters than in the period of four quarters, which is fully explained by the one-off payment to the Dutch tax authorities. All of this is therefore relatively easy to compare.

September exit rates

Finally, in the outlook for Q4, we have included a page 27, which gives you the September exit rates. As you can see, in France it improved compared to the quarter to -2%, the Netherlands was flat at 4%, Germany was roughly in line at 1%; Belgium, as was already mentioned, eased to 3%; Iberia was at 6%, which was the result of some choices made; in

the UK, the focus on gross profit put it at -/-6%; the rest of Europe was at 12%; North America was at 5%; and the rest of the world was at roughly the same level, at 10%.

Outlook

If you look at the October developments, every week we follow volumes and we can see that the volume of employees working and on placements is roughly flat compared to the average of the third quarter. Typically, that translates into revenues that behave in the same way. We anticipate a somewhat smaller foreign exchange impact and again the comparison base continues to strengthen, at -1% last year in Q3, moving to +2% in Q4, so a delta of +3% that has to be taken into account.

Gross profit was stable throughout the quarter at 6% and we continue also, in Q4, to focus on revenue quality, especially in markets like France. It is a similar number of working days in Q4 as last year. We again expect a moderate increase in the cost base sequentially, with, again, investments in headcount but only in selected markets. The restructuring measures will start to become effective in the Netherlands and we expect to see the full savings of just more than €20 million in 2015. Finally, we expect the foreign exchange impact on the cost base to be around €8 million; we are giving this indication in order to make sure that everybody understands the development: it is an upward effect, €8 million extra.

We hope to see you at our Capital Markets Day on 20th November in London.

We now move to Q&A and we would like to ask you to restrict yourselves to two questions each. Thank you.

Q&A

Nicholas de la Grense (Bank of America Merrill Lynch): Morning, guys; thanks for taking my questions. The first one is on France and particularly on the wage subsidies; you mentioned on the call that you see them as being highly likely to disappear. I just wanted you to clarify if your sentiment towards the subsidies has changed or whether that was just a general comment about subsidies in France generally being a temporary phenomenon. I was particularly wondering what you read from the recent French budget, which made it sound like CICE was here to stay, at least for the next couple of years?

The second question is on the estimated impact of pricing in Germany in Q4; obviously volumes have gone negative now and I was wondering if you could give an indication of what the price effect of that might be?

Jacques van den Broek: Subsidies in France are not a temporary phenomenon: I have looked at this market for 15 years and there has always been subsidies, so CICE is just another addition. What Robert Jan tried to get across is we are trying to build a long-term business and competing with subsidies does not really belong in our book. However, that is not to say that CICE is going to disappear in the short term. As you know, this is a system that will run into 2016 and it is absolutely the case that government has announced that there will be a similar, or a different-but-with-a-similar-effect package in place because this government believes in stimulating the economy with measures like this. There will therefore be no short-term disappearance of CICE.

The impact of the wage effect in Germany is going to ease further into Q4; we expect it to be around 4%. Furthermore, volume development in Germany is currently stable in October.

Nicholas de la Grense: Okay; thank you very much.

David Tailleur (Rabo Securities): Good morning gentlemen. First of all I have a question on the dividend policy. I remind you, you mentioned a 40–50% pay-out a couple of years ago and also stated it would be at the high end of the range, let us say close to 50%, if your balance sheet was strong and top-line trends were supportive; so should we use the 40% or 50% for, let us, say the pending year as pay-out?

I also have a question on the conversion ratio; at a group level this is quite decent, at 66%. However in some countries it is clearly below that level, for example if you exclude the CICE impact in France; are there more improvement programmes scheduled, as you have, for example, already planned for Belgium and the Netherlands? Thanks.

Robert Jan van de Kraats: David, you are a little early for dividend.

David Tailleur: I know.

Robert Jan van de Kraats: Yeah. I think we tried to give some guidance by setting out what drives us in our decision; so, indeed, the balance sheet is getting more comfortable. As you know, we are always looking if there are also opportunities to expand by acquisitions but nothing is imminent right now. We will see how the rest of the year works out and then we will take all of that into account. However, I think our decision of last year gave you some guidance. It is a bit early; we have not even discussed it with the supervisory board, so you will have to do with the behavioural analysis of what we have done in the past.

With regard to the conversion ratio, there are indeed some countries where it could improve and we are constantly looking at ways to improve that. We also indicated that we would like to go into a bit more detail in the Capital Markets Day here.

David Tailleur: Okay, that is a nice answer. Thanks a lot.

Robert Jan van de Kraats: Thank you.

Toby Reeks (Morgan Stanley): Morning, guys; I have one on the cost base. You are talking about a moderate increase in SG&A; I think a moderate increase was about €6 million on an underlying basis, when you flagged it was going to be moderate in Q3. However, the question I really have is: you usually have a larger quarter for marketing expenses and you flagged that you would be doing a bit more marketing, I think, on the call in one or two; should we assume that moderate increase includes the marketing expenses and that €6 million is about the right thing for Q4?

I then also have one more.

Robert Jan van de Kraats: Yeah, indeed, last year in the fourth quarter we had an increase in our marketing expenses; this year we are not going to have a similar increase. We are constantly looking at opportunities to support our commercial activities, so you should use last year as a base and then we expect very moderate growth on top of that.

Toby Reeks: Okay, fine, thank you. I then have one on gross margin, which may have two parts to it, sorry about that. Firstly, in terms of ACA, what are you guys expecting? What sort of impact are you expecting from next year? Secondly, in France some of your smaller

peers are obviously refunding some of the CICE; can you confirm this, what are you doing in that respect and should we be looking for some gross margin pressure in France, going forward? Thank you.

Robert Jan van de Kraats: Alright, Toby, just as an addition to my previous reply, please note that the company is growing and that has some impact at opex. We now are moving to Linda as the ACA expert of the company and she is going to respond to your question.

Linda Galipeau: In terms of ACA, I will start at the top line. There will be some impact, albeit quite small, of ACA on the revenue line; we expect less than 1%, probably more in the neighbourhood of 0.5%, on the revenue line in the US market. So 0.5%–2%, not more than that.

Toby Reeks: What does that relate to, sorry? Is that relating to people going more into temp working or is that more a technical impact of CICE coming in?

Linda Galipeau: Right now I am responding in a demand-neutral way, so I am saying, on a like-for-like revenue basis, just in terms of the cost increases and that being passed along to customers, in a revenue-neutral manner, which is how we are going to address it, then you will see that. Now, the increased demand and the increased consolidation potential in some of the larger suppliers, like Randstad, will have a yet-to-be-seen effect. We expect it to be neutral to positive, I do not see why it would go the other way but I am talking on a like-for-like revenue basis. We expect it to be GP-neutral and we expect it to be EBITA-neutral, as well as GP-percentage-neutral. All costs are therefore being passed along and there is nothing we have seen so far that would indicate we are going to have any sort of margin pressure associated with ACA.

Toby Reeks: Obviously you have been having those conversations with your client base and they have said they are happy to pay the incremental?

Linda Galipeau: Yeah, happy to pay to the extent anyone is happy to pay. They fully expected it and are comfortable with the price points that are being quoted because you also see that they are seeing it in their own business; ACA is something that impacts all employers. I would say, therefore, of all of the conversations we have had, over many years, about this topic, this has been the smoothest.

Robert Jan van de Kraats: Toby, of course we hope to see some impact in the markets from complexity but it is way too early to talk about that.

Toby Reeks: And then go on, on the CICE.

Robert Jan van de Kraats: You were a little naughty asking three questions.

Toby Reeks: I know, sorry.

Robert Jan van de Kraats: However, we will allow it for once. Can you repeat your CICE question, please?

Toby Reeks: I think some of the mid-size players are refunding, or not refunding, are prepared to give up, some of the CICE; I am sure you are seeing that and that is why you guys are under-performing the market slightly but are you guys going to hold firm on that? You are not seeing any of the other larger players doing this, are you?

Robert Jan van de Kraats: Yes, your analysis is right; we see the smaller players being more aggressive in this field. You see some of the smaller players with double-digit growth in France, which is clearly the result of more aggressive pricing. The behaviour gets better when the competitors get bigger. However, I think there are also some sensitivities with some of the larger players, clearly resulting in the gap with the market as we have reported it now.

Jacques van den Broek: Yes and to elaborate on that: we mentioned in Q2 that we shed roughly 2% of business in this way; it is not like fully shedding clients but they just broaden the panel of suppliers and of course you therefore lose a bit of share there. Funnily enough, we do not get this question with our In-house clients. Apparently, therefore, when you have a value-added strategy for the client they do not want to squeeze every dime out of you, so that is good to here. However, what we have shed is increasing in Q3; we are now looking at, annualised, probably around 3%.

Again, we do not care that much; we are the number three in the market so, from a volume point of view, that is not really what we are looking for in France. Currently the upside is that we are growing in SME and we are growing in perm, so that is all good. Then, if the market picks up again due to economic development, again we will outperform market, as we did in 2010, 2011, 2012, based on the more-than-100 points of sale we have in our In-house.

Toby Reeks: Okay. We live in hope and see you at the Capital Markets Day.

Jacques van den Broek: Yes, good. I will look forward to that.

Marc Zwartsenburg (ING): I have two questions from my side; the first is on the Netherlands. If I look through the margin development quarter-to-quarter, going from Q2 to Q3, it seems the development is less positive than last year. Furthermore, if I look to the leverage year-on-year over the quarter, there is 0% growth in EBIT; I see you mentioning more marketing spend and some investments in FTEs, however it confused me a bit that at the same time you are continuing with a large restructuring here. I also thought the growth should come from more focus on KPIs; so can you perhaps update me as to what is going on there exactly and what has improved, in terms of KPIs, on the unit steering that drives the growth, or was the key driver of the growth in closing the gap with the market? That is my first question.

Robert Jan van de Kraats: I will address your first point and Jacques will take care of the commercial activities. I understand your question: last year the EBITA margin was slightly higher in the Netherlands and you are right, indeed: a bit more investment in marketing. However, it becomes a bit of a science; whereas we all know that at the end of the quarter you have to close the books and then you have to make estimates, last year I think there was a bit more favourable development in some of the social security items than we have now. So this is therefore much more in that field than anything else. Moreover, you have also seen our growth reported in Perm and that is one of these examples where we have made some serious investments to accelerate growth and that is also coming through in the Q3 earnings level.

I would therefore say it is all marginal items that together explain this difference.

Jacques van den Broek: And as you know, compared to peers, profitability is not a problem in our Dutch market. On the contrary, we are happy with our profitability in the Dutch market.

Your question which was, 'Okay, so you grow and then you shed 250 people,' is the right question: what are we doing here? We are doing the same thing here we did in Belgium: we are combining all the back-offices of the two companies in Belgium. That went very smoothly, as you can see there is good growth in our Belgian business, so it did not hurt our frontline; we are not touching our frontline. We also, of course, did this in Spain and Italy last year as a result of the acquisition of USG; that is absolutely the same way of going about it: you combine two companies. Furthermore, in both companies, Italy and Spain, you also see a huge increase in our profitability as a result of a huge decrease in our cost base.

We have therefore done the same thing in the Netherlands with three companies; that results in 250 people fewer, combining one management board, one HR department, one Finance department, one Marketing department and one Facilities department. That is 250 people; we do not like that because, at the end of the day, we fire people. Having said that, we are of course doing what we also do for our clients, so we are creating a mobility centre.

The last time we restructured in the Netherlands was two years ago, with around 135 people; after nine months 80% of these people have found a job or we have found a job for them. That is therefore what we are going to do; so it is bad news for the 250 people but we are again optimistic on finding jobs for them.

Robert Jan van de Kraats: Also, Marc, the cost base includes our efforts in the SME markets.

Marc Zwartsenburg: Fair enough, however if I see no growth in the EBITA but see the top line finally accelerating a bit and at the beginning of the year the focus was really on improving KPIs and the discipline around that, I also expect a little bit of leverage, in terms of profitable growth, as soon as the growth kicks in a bit. Furthermore, I see there are some big investments in the number of FTEs at the same time a big cost-cutting programme is running after that; that seems to be a little bit conflicting, so how much of the cost base will be sticky? And the growth is coming and we need more investments then how should we think about EBITA growth, going forward? That is the bit that confuses me.

Robert Jan van de Kraats: It is a fair analysis and it should indeed return in improvements going forward but not yet in this quarter. I think your assumption is right, therefore, if you look at potential profitability of the Dutch market, it remains solid, in our view and there is clearly still potential for improvement here which we expect to see coming through. I fully understand your question but it is a matter of timing.

Marc Zwartsenburg: It is not about pricing pressure because there are contracts coming in at lower prices? The other thing I see is volume growth essentially above revenue growth, which also sends a bit of a message of pricing pressure continuing, is that what is going on?

Jacques van den Broek: There is definitely pricing pressure, of course. We also said in Q2 that we also shed business in the Netherlands, roughly 2% top line growth, as a result of that. However, on the stickiness of costs, the 250 people we are taking out will not come

back if we grow because it is back-office; we also rationalised the processes in there. Therefore, if we were to grow mid-single-digit next year and even the year after, these people will not come back. So it will result in a structurally lower cost base in the Netherlands and that will definitely help leverage.

Robert Jan van de Kraats: And Marc, our gross margin is up in the Netherlands, so that counter-arguments your worry to some degree. You are right there are pricing issues but we are selective and I think it is working out relatively well. But we need to see revenue coming through; absolutely.

Jacques van den Broek: Please do not worry, Marc. I would not like you to be worried.

Marc Zwartsenburg: Well, the gross margin statement from Robert Jan helps a lot. However, I also had a second question on Germany: can you give us a little bit of a feel for the trend in October?

Jacques van den Broek: They are roughly flat. We have seen a gradual volume decline from a little bit positive in Q1 to 2-3% negative just before the summer; we are currently around 5% and it is staying that way. However, apart from economic circumstances, we need a bit more colour on the result of legal changes. We have the two-year rule, which we lobbied against because it is funny and it is repairing a problem that does not exist; if people have been working as a temp with a client for two years, there is a gentlemen's agreement with unions and employers that something needs to happen with people: they either need to be replaced or hired. We calculate that this, roughly, puts a 2% negative effect on our volume.

The other factor, which Robert Jan mentioned, is the sickness percentage. Normally we have 2.8 sickness percentage in the summer; it is now a little over 4 so that, again, is a negative volume development in the way of 3%. So, you know, it is a bit of economic, which feels different than France, by the way and there is a little bit of legal; so that is where we are in Germany.

Marc Zwartsenburg: So we are down 5% in volumes, flat on revenues and there is a 2% expected negative impact on volumes from the IT module; is that a good summary?

Jacques van den Broek: Yes, that is a good summary.

Paul Sullivan (Barclays Capital): Morning everybody; I just have a question on the US and the sustainability of the US Staffing outperformance through the fourth quarter and into next year. And following on from that, is the gross margin Staffing decline in the US a function of mix or pricing.

Then, just generally for the group as a whole, should be still expect, as usual, fourth quarter sequential uptick in GM in Q4?

Linda Galipeau: In the US, there has been a shift in mix over the last year; certainly the blue-collar growth has been in the higher teens and the white-collar growth has been in the low single digits. We are seeing continued, stable growth trends from Q3 to Q4 in blue collar, so stable at a high place and the white-collar growth trends are accelerating, as is typical. A lot of the white-collar growth trends were negatively impacted by the mortgage sector and as we kind of shed those comparables and as that sector rebounds a little bit we expect to see an acceleration in the white-collar growth trends.

I think there are therefore some things improving that can offset anything that may flatten out. However, right now we have not seen any flattening out in the blue-collar trends and it will be very interesting to see, as we go into next year, the ACA effect because that has yet to be determined. On the flipside, we are seeing an underlying improvement in our Professionals business which will again serve as an offset when you look at the overall US roll-up. We do not, therefore, forecast any declines at this point in the US overall growth rates.

Jacques van den Broek: On your question on the group as a whole, we expect the typical seasonal pattern to continue; circumstances are relatively normal. Actually, if you look at the underlying trends, the composition of growth is pretty much driven by blue collar across the world. There is a lot of normal patterns happening and also the gross margin in Q4, hopefully is going to follow that route, so typically it comes out just a few points higher than the previous quarter. However, it is dependent, of course, on how Christmas is developing. If, in Germany, factories are closing a little earlier, or too early, that has an impact. But that is normally the way it feels now: it should be according to the typical seasonal pattern, so it might be a little higher for Q4.

Paul Sullivan: Great. Thank you very much.

Konrad Zomer (ABN AMRO): Hi, good morning; my first question is on the Netherlands. Can you share with us what proportion of your revenues you generate in professional staffing and whether or not the margin development in your Dutch Professionals business reflects the overall margin development of your Professionals business for the group: i.e. now that it is above the average for the group again, does that also relate to your Dutch business?

My second question is on the SME segment in Holland; can you share with us whether you have seen specific evidence that part of the market has actually picked up in recent months? And can you explain to us why your Professionals business was up 16% while Yacht reported a 1% decline in revenues?

Robert Jan van de Kraats: Yes. We are growing quite nicely in SME, double-digit actually, which is a direct result of the pick-up in calls or visits in this segment. That is helpful and also has, of course, an upward effect on our gross margin. This is difficult to calculate, by the way.

We grew 16% in Professionals, which is mainly the Randstad and the Tempo-Team part, which is the mid-to-lower end of Professionals. We have invested a lot there; in the Netherlands we are building an IT vertical, similar to what we have in the US and that is a part of the investments we made in the Dutch market, which is also partly a result of headcount going up. We believe that we can grow there, however we are there in the investment phase so it translates less into profit development.

If you talk about Yacht, as you know Yacht grew a lot in the engineering segment, although less so now. We are talking companies like Philips and ASML, so you probably get the picture. It is now growing fast again in the government angle. But overall, it is a rather flat development; we are not happy there. It is also the reason why we are going to combine the Professionals business; building the verticals and having a clearer and more commercially-aggressive approach, in a good sense, to the Professionals market at large in the Netherlands.

Robert Jan van de Kraats: Yeah, if you look at the share of the total portfolio, it is too little; that means it is below 20%, just below that. However, the gross margin is behaving in line with the group as a whole.

Konrad Zomer: This relates to the Netherlands, right?

Jacques van den Broek: Correct.

Konrad Zomer: I also have one small question on your exceptional costs: you had €6 million in Q3; the press release about the restructuring mentions €22 million; can we just conclude that the remaining €16 million will be taken in Q4?

Jacques van den Broek: Most probably, yes.

Konrad Zomer: Okay, thank you.

Hans Pluijgers (Kepler Cheuvreux): Good morning gentlemen; I have two questions from my side. First of all, looking at your activity levels after Q2, you gave a clear indication of the improvement in activity levels; could you give some update on what is happening there, especially on what is happening with the fill rates? You indicated a few months ago that you were up 30% on those activity levels but how do you see that filtering through to your fill rates and the number of jobs you are really getting in?

Secondly, more generally on the competitive environment, you have already talked on France but could you maybe give some other indications on your other main countries on how you see the competitive environment developing? Do we expect anything changing in the near future there?

Robert Jan van de Kraats: On Netherlands in commercial activities, we see a similar increase; so again around 30%. It dipped a bit into the summer because then we have the combination of, of course, relatively high volumes and our clients and ourselves being on holiday to a certain extent. However, certainly into September it is hitting the road again, so again a 30% increase. I remember us having the discussion on conversion rates; in the US they have been doing this for a longer time and they see good conversion rates and also a direct link between what you put in the market and the results you get. The Netherlands are also doing very well in SME.

However, in Germany we have a company that has grown with large clients; they are now doing 40–50% more activities in the SME space but then you get white-collar demand and you need to also create a candidate funnel. That is something we are teaching our people and therefore we have a bit of a time lag in actually executing. It is therefore different, country-by-country; there is an overall 30% increase but conversion rates differ a bit. That is not so much because of the market; we do see a bit of tightening in the US, so there you need to work harder to fill your jobs. But overall, we will see the results coming in.

Jacques van den Broek: On your question about the competitive field across the globe, I think we already addressed the behaviour in the French market; in the Dutch market we mentioned that it can be competitive and if you look at the Belgian market that is clearly true there also. I think the American market, Linda, is smart right now on pricing, is it not?

Linda Galipeau: Yeah. What you are seeing in the American market is the tightening of the labour market and I think that tends to be advantageous for pricing; so we are seeing tightening supply, especially across the blue-collar and the Professional segments.

Jacques van den Broek: Yeah, sadly in Europe we see it continuing. However, I think everyone is behaving relatively professionally. Moreover, if you look at the Japanese market there is the same tightening of the labour market; finding candidates is the challenge, so I would say that is the overall picture. However, additionally, we have mentioned how, in the UK, you need to be very, very selective on which clients to retain and which not to.

Hans Pluijgers: Going back on activity levels; you said they are still up 30% but how do you see the direct link with your sales? Of course, I see also that your number of vacancies is picking up quite significantly; how do you see it filtering through to your sales and where do you see, still, clear room to improve on those activity levels floating through to your sales?

Jacques van den Broek: There is always room for improvement; it is the biggest room in the world, as you know. There is a direct link in perm; perm is a very tight process and if you do that well you see a direct link in placements, so there we see really good conversion. In other markets, it is different. Again, as Robert Jan always says, our job is an art and not a science. Sometimes we do not have historic conversions; if we go much more into white collar in SME in Germany, to an extent we have never done that before so we do not have historic conversions. You can take it from another country, however every country is different, and even regions within countries.

I therefore cannot give you a direct link-up. However, it is hard work teaching our people to improve conversions; marketing needs to chip in here to get better candidates; IT needs to chip in here to get better web access and job boards, so it is a collaborative enterprise but it always starts with increased activities and we are happy there.

Robert Jan van de Kraats: And this should help us to outperform the competition.

Jacques van den Broek: As we do in the US, for example.

Hans Pluijgers: Okay, thank you.

Tom Sykes (Deutsche Bank): Morning everybody. I just had a couple of extra questions on the US, please. Regarding your Industrial and Perm revenues, I appreciate you obviously have some acquisitions, one sizeable, in there but either on a sort of pro-forma basis or sort of a gut-feel basis, where are your Industrial revenues and your Perm revenues versus their previous peak, please? Secondly, what level of staff increase are you putting in directly related to perm activity in the US, please?

Linda Galipeau: Our Perm revenues are at their peak every quarter, so the Perm revenues we are seeing are, in our Staffing business, still growing; they were at over 30% this quarter. Our Professionals Perm revenue is also improving and so I think we are currently at peak levels. However, because of the investments, we are making, we are watching productivity levels very closely; those are at, I would say, optimal levels but we are not under-capacity. That means we are adding head count in a very scientific and timely way; that headcount, in Perm, can translate very quickly into increased revenue levels.

On our Professional side we are seeing a recovery, so our Professionals business was under-staffed; our Professionals business has a slightly longer time to productivity, so what

we are seeing, especially in our finance and accounting business, is our repair efforts finally coming through and that is helping our Perm levels. We are, however, still slightly under-market in Professionals Perm, so I think there is some good upside there.

I think investing in headcount is something we got right this year that we had wrong in previous years. It is particularly challenging this year; I do not mean challenging-hard, it is challenging in a good way. However, because of the increase in the blue-collar market we have had to make quite a few investments and the good news in blue collar is those investments return very, very quickly. This is market with a short time-to-productivity; we have a very tight model, so people we bring in are profitable for us quickly.

On the Professionals side, the time-to-productivity is a little bit longer so we are seeing some of the people that we invested in in the first quarter come to productivity now. We therefore think we still have some productivity upside in the Professionals business. We are particularly continuing to invest in the IT business, in particular where our productivity levels are at peak levels and we have lots of opportunity for additional growth in the market.

Tom Sykes: Thank you. I guess I was kind of leading to the industrial temping revenues; I do not know whether I have just misunderstood your last comment, but could you give your Industrial temping revenues and just kind of your gut feeling relative to the blue collar Staffing revenues you have obviously acquired in there? Where do you think you are relative to that previous peak, please?

Linda Galipeau: We are definitely over the previous peak; we probably want to get back to the absolute number. We would have to layer back in the SFN acquisition but we are definitely high versus the previous peak and the market is over previous peak also. But again, Tom, our Industrial revenue, year-on-year, in Staffing is up 18% for third quarter; that is pretty dramatic. And it is a market where we are seeing lots of different factors at play: we are seeing demand, we are seeing our strong investments; we are up quite a bit compared to the market and that is for internal reasons that are very favourable and continue to be strong. But we are definitely past the peaks, as is the market.

Robert Jan van de Kraats: You probably need to realise that since 2006/2007 we have added Vedior, we have added SFN and finally, the third component is that the company became successful. That is therefore quite a different base every time.

Jacques van den Broek: And then finally, within the blue collar, we also shed some unprofitable and/or high-liability clients, so we have not just grown a lot in volume, we have also grown a lot in quality in blue collar.

Tom Sykes: Okay, thank you very much.

Yves Franco (KBC Securities): Good morning, I have two questions from my side regarding Perm fees; at what percentage of your total revenue and gross profit is it now and how high were historical highs on that? What is the target on this percentage?

Then, secondly, performance in France has been quite erratic now, -2% in Q1, -1% in Q2 and -4%; this quarter, should we expect a deterioration of the situation or does the high exit rate, at -2% in September, signal a bit of improvement? What are you seeing in October so far; what is the guidance for France for Q4? Thanks.

Jacques van den Broek: On France, no, unfortunately you should not read an improvement in France in the exit rate September; it looks a bit better, indeed but we do not see an improvement. Honestly speaking, we also see a bit of collared[?] growth in our shedding the business. From a volume point of view, therefore, we are not expecting too much; no decrease but no increase either. If you look at current numbers, on a weekly basis, France is pretty stable at around the exit level September, slightly lower. However, that is what we are seeing.

Jacques van den Broek: The share of gross profit, reflecting Perm fees; in the old days it was at 12%, going back to the times Tom just addressed but then it declined to a level of between 7–8% of gross profits and it is now approaching 10% again. It is therefore clearly improving.

Yves Franco: How fast has this gone up again? In the last quarter it was still 7%.

Robert Jan van de Kraats: How fast? Certainly in Staffing, if you are looking at a 20% increase, in a large part that is new business; we did not have that historically. The larger part of our GP in perm was in our Professionals businesses in the UK and the US in better times. So it is partly also stuff we got from the market which is new and we are very hopeful that, if the market also picks up further in Professionals, then we will start growing faster in Perm in Professionals.

So actually, certainly the Perm in Staffing part in the US was already quite strong but in Europe this is two-to-three-quarters; in implementing the activity-based field steering, Perm has been a very deliberate strategy within that and that is one part of the strategy which is delivering quite quickly, actually.

Robert Jan van de Kraats: I was just informed that Laurent Brunelle still is waiting to raise a question, so we will take that as our last question.

Yves Franco: Okay. Thanks.

Jacques van den Broek: Thank you.

Laurent Brunelle (Exane BNP): Thank you very much; good morning. I will probably be the last one to ask questions. Quickly, first, on the restructuring in the Netherlands. When do you expect the finalisation and what about the Professional segment, please?

Secondly, on margins, given some investments expected in Q4, is it fair to assume that the incremental conversion rate should ease from the 66% achieved in Q3? Thank you.

Robert Jan van de Kraats: I have already made the point on the restructuring in the Netherlands: we expect the full impact to come through in 2015, so as from the beginning. The Professionals restructuring is planned for later; details are still unknown, to be addressed as soon as possible.

Finally, you asked for the anticipated incremental conversion ratio in the fourth quarter; this is really, you know, details in the spreadsheet and I have to say that, if growth continues, it follows the normal pattern: it gradually, gradually goes down but it should remain high. But it is too precise to share that with you right now.

Laurent Brunelle: Okay, great. Thank you very much.

Robert Jan van de Kraats: I think we have given you most of the ingredients to assess it. Thank you so much; this completes our Q3 discussion on the results and we thank you for participating. We hope to see you on 20th November in London. Thank you so much; have a good day. Good-bye.

[END OF TRANSCRIPT]