

Q2 2019 earnings call transcript

Jacques van den Broek, Chief Executive Officer

Yeah. Thank you and good morning. Q2 2019 a solid performance in uncertain macroeconomic conditions. So great to take you through it and I will go immediately to slide 6. Where we see the heading European conditions challenging robust gross margin. So when we analyze the 1.7% negative growth we're seeing. We can attribute directly 1%, so 60% of that two automotive and related industries. This is in Germany, of course, we saw that in Q2 and Q1 already. But also in the Netherlands and Belgium, I'll share a little bit more light on that one later on. Our North American business did quite well at a fairly stable level with great returns. And when I talk about North America. I'll talk a bit about the current balance we're having and investing in growth and also taking cost down, which is an art more than a science, but I will take you through that, rest of the world 10% growth, again, very happy with our performance over there.

Yeah. What does it feel like is probably a question you have on your mind actually, from a growth point of view. June was not the worst month in the quarter actually slightly better. But we don't yet feel that there is the basis for bouncing back. Although, again if you would ask me if you would ask us, we think it's a pause, more than a real slowdown also because it's very directly related to automotive. Our EBITA margin slightly down, but gross margin still good same picture, we saw in the first quarter, very happy with that continuing into the year. And then, yeah, we do not want to kill growth. So in our US business in our Rest of the World business, but also still in pockets in Europe in Professionals left and right, we still want to balance our investments in growth and at the same time, have a decent return. Invested in marketing for secure for the growth of the future and our overall quality of results in Q2 is quite good. But Henry will shed a little bit more light on that one later on. It takes time, sometimes to adjust the cost base. We've had that discussion in markets like France and Germany already we now see quite a pretty short a quick decline in the Netherlands and Belgium, but these are businesses with great mature management teams. So they'll react. We still within those challenging conditions continued to gain market share in the Netherlands, in Germany, in Spain and in Italy. So, very happy with that performance. Because as you know, things can be what they are, but we want to have a in relative terms, better performance there. I mentioned gross margin it's a mix of why we do this as strong management focus on pricing, nothing new there within Randstad we sometimes walk away. But then we increasingly we have our digital tools that very much helps us and our clients are also because we show increasingly through our digital tools, what a labor market looks like they're willing to pay. If a good candidate is tough to find. It's also a quarter where we did some M&A, we bought a company in Australia, Aurec active in statement of work engineers and IT and a small one within our Ausy business Optedis in France. So if people from those companies are on the call -- while Australia might be late already but very welcome with Randstad of course and on the IT on digital this quarter, we would very much like to mention a more foundational achievement we had, we moved 925 IT applications and 50 legacy data centers to the public cloud, which is quite an on the taking it has been a project, which ran over three years. But we're now set up with a great basis to build our commercial tools upon next to that we had two big front office implementation in Germany and Japan. I mean we'd like to specifically mention those, first of all, because our Japanese colleagues did this while at the same time growing the business with 9% and our German colleagues did this in Germany with 15% decline. So a quite impressive too at the same time on

the take this flawless so a front office implementation is quite an undertaking but it went quick and it means that our consultants are equipped with the modern way, of working more support tools. So, very happy with that in general on digital, we're continuing to see good progress on workforce scheduling 20% more implementations compared to Q1. For example, in our US business we do see clients where we've implemented this, we take 8% more market share in Q2, whereas what we haven't implemented yet. It's just 1.5 so this helps us to strengthen our presence at clients. Video interviewing we reached 300,000 interviews with Canada's through video in our U.S. business, close to 55% of all presents himself through digital through video and it helps the candidates to present themselves. Well, but also our clients to make the right selection. So a great supporting to gathering speeds within our portfolio.

Taking you to the countries on Slide 7. Our North American business, this is one and I mentioned it in my opening statements This is one where, in hindsight maybe we should have allowed a little bit more people in our Staffing and Inhouse business as you know, we've got a great operating team over there. We haven't been taken market share with our strong concepts in Staffing and Inhouse. And you know tougher comps, but at the same time they did well, maybe 1% or 2% growth would be feasible. So we're going to try to allow a little bit more staff into our American business because underlying. We do feel those markets still allow for growth, stable performance at our Professionals business perm accelerating to 6% from 0% in Q1, I think, signaling the fact that there is still quite some demand in that market. And then a great EBITA performance in our American business. So very happy with the performance in the US and also in Canada with a bounce back from a slide negative to slide positive. In our French business, we talk a lot about automotive and as a distinct difference we feel between French automotive and German automotive. So German automotive sales in the world market and they are hampered by the trade wars by China and the diesel legislation that we mentioned last quarter already, French automotive sales more within Europe. So, although it's not hallelujah its way less down in that sense then German automotive, very happy with our performance in France given the tough market our Professionals business double-digit growth on also tough comps. This is including our subsidiary Ausy perm doing quite well against very tough comps last year. So our French performance and you see it in the EBITA margin very positive. Dutch business. Yeah, quite a slowdown, half from a slight growth in Q1 into a negative three very much related to automotive. We do think also in the Netherlands, roughly half of it is automotive related industries a logistics of course geared towards those industries in the Netherlands, there is automotive, they make buses all sorts of investments in those areas. Happy with our Professionals performance at very tough comps 8% Sheila 5% growth. Very happy with that performance and a stable EBITA margin compared to last year. Then Germany as mentioned already in Q1. The toughest one out there. The market slowed down further. And then since we are happy we took out cost. I'm not happy because this is also about firing people of course, but yeah we anticipated this happening, but still it, it was a bit worse than expected. Your first question might be. Okay. So now what and actually, we don't know. We are now in July. It's going to be waiting for September until our clients hopefully no more in their production planning for the rest of the year, we aim to take cost further down into Q3 and Q4 into Germany, actually the whole -- our whole staff is going to work half a day less per week. This is a German system where also the German government checks in and we can keep everybody on board for at least six months. And prolonged theoretically for the next six. So that is what we're currently doing in Germany hard work for all our colleagues at the same time, implementing a new front office. So in that sense tough but well done and ahead of market

because judging by performance also market figures, it's even worse than our numbers currently show. Belgium, similar to the Netherlands as in automotive, we do see also here see from a one up percent to down 4 and we can directly attribute half of that to automotive weakness as it specifically mentioned here. Yeah, our EBITA margin last year was relatively high -- our Belgium business hovers around a 6% EBITA. So, very happy with that one. And absolutely have confidence that -- will materialize throughout the year, this year a slightly less also because of lower contribution of Perm probably logical given the uncertainties currently in the market, but also tough comps compared to last year where we grew 35% in Perm. Then again a highlight in our portfolio, which is Italy. I already talked about the art of managing costs, managing people we left people in our Italian business and that's paying off for us. We are above market -- great Perm growth, double-digit higher in Q1 but still double-digit and you see the EBITA margin developing very well for us here in Italy. So, very happy with our performance in Italy. Iberia -- you see Southern Europe is actually slightly better than Northern Europe, our Spanish business at a plus 3% growth. We mentioned in the former quarter the increase in the minimum wage, which has been passed on well to our clients. Although from a distance unemployment in Spain might still a look on the high side, but in specific job categories there's definitely also scarcity there our Spanish business, well run business, strong pricing discipline and execution. So, leading to an increased EBITA margin also our Portuguese business seems to be bouncing back a bit in terms of top line so happy with that one. Then the rest of euro Pretty mixed bag, not much to say about is our UK business is quite stable, so although perm is on the pressure. So for the whole Brexit insecurity is not really gaining in our book. A lot of traction. Yeah. And you see stable returns Nordics slightly better Switzerland similar outperforming the market by the way, and our Polish business stable. Then, Rest of the world. Yeah. You know continues to be a star-performer for us. I mentioned the Japanese growth 9% Q1 was okay. Q2 is even better our Australian business is still doing well, but signaling India. India is it's a huge country where a lot of people, but the formal labor market is actually much smaller 450 million people in the labor force 50 million are in a formal job.

So the market is smaller than you might expect, but our current management is doing a great job in finding pockets where we can have profitable business. They're very happy with our Indian performance and Latin America. And I want to congratulate our Argentinean colleagues they move to the number one position in Argentina. Our Brazilian business also doing very well. So a great compliment on that performance, which overall leads to an improved EBITA percentage. Then to Global businesses, for me looking at the Rest of the World and Global businesses. I do see a lot of similarities so with me on that one. So roughly five, six years ago, we knew from a strategic point of view that the rest of the world markets like Japan, India, China, South America were promising market for us. And to develop a global company, we would need to invest in those markets, and we've done that for years and even in somewhat more adverse times we went on investing and it now pays off. That's very much the feeling, I have with Global businesses, we do see a trend that clients want to buy from less suppliers worldwide the want to talk about Total tell an architecture, they want us to help them to manage their workforce on a global scale and we're doing that, but to be able to do that, you need to invest, you need to invest in people, you need to invest in technology, you need to invest in data to show clients would labor markets look like to handle that to help them with training and whatsoever. And the same goes for Monster, you know, it's our ability or it's all wish our strategic wish to have the biggest a data lake the most profiles available to support our clients and candidates in their career and finding great candidates and again with that come investments I mentioned last quarter that we nominated Rebecca, Henderson as a responsible

for global businesses. And we do see this paying off we do see, certainly, we are very positive about the portfolio a new clients a source in second half of the year, but also on a somewhat smaller scale a digital out-placer is gaining quite some speed in the markets it's in. So, very happy with that decision we took so on that note, Henry. Can you share a little bit more light on the numbers.

Henry Schirmer, Chief Financial Officer

Of course. Thanks, Jacques. So my pleasure to take you through the Q2 financials. Please note that all figures are included IFRS 16 unless specifically stated otherwise. So, as mentioned by Jack, the company delivered a solid operating performance in an increasingly uncertain economic climate, especially in Europe. And while being mindful of this macroeconomic uncertainty. Our good gross margin performance provided room for continued selective investments to secure competitive growth and we are pleased to experience a robust gross margin performance, which is the effect of increased management focus and the wider use of pricing tools in conjunction with ongoing tight labor markets. But obviously, there is also some supportive mix effects this play as me run you through the P&L to provide you a bit more detail. So revenue is down minus 1.7%, with more than half of the decline is coming from automotive and a very good they can rely on our strong portfolio with North America and the rest of the world showing positive momentum. Equally important is the fact that we could continue to achieve market share gains in several of our largest country. On the next line the gross margin came in strongly at 20%, up 20 basis points year-on-year and ahead of our guidance. We'll take you through into more detail on the next slide. Operating expenses were stable year-over-year, reflecting our ability to support our most promising growth opportunities while it's going through continued efforts to adapt our cost levels to harsher market realities. EBITA came in at EUR277 million with a 4.7% EBITA margin. And please note that our diluted underlying earnings per share fell by 14% year-over-year impacted by two main non-cash items, firstly as guidance, we experienced a 4 percentage points higher P&L tax rate due to the change in the French subsidy system. And secondly, last year where the positive ForEx movement impacting the comparison. So all in all, we see a good quality of our quarter two results. And so now its on page 14 we show the gross margin in a bit more detail. So what you can see on page 14 the temp margin continued in positive territory in quarter two being up 10 basis points year-on-year, very similar to quarter one where we experienced improved pricing trends. As a result of structured management effort utilized labor market data feeding our value-based pricing tool across our portfolio. And as a result, we are better able to benefit from tight labor markets in regions like the Netherlands France, Japan and Spain who benefit in the significant way. The confirms our ability to price for superior value deliver to our clients globally. The bar, the middle shows the positive impact of our perm growing firm business 2% growth driving 10 basis points positive mix. It's all fee income and therefore gross margin accretive. And lastly, the bar on the right represents HR services, we chose the noteworthy effect on the gross margin and an adverse Monster mix effect was offset by positive Forex effect and other growing HR services businesses. So, in volatile markets, which is some significant shifts and growth rates per region and concept and hence we are keeping a close eye on gross profit in relation to OpEx to ensure enough benefits showing up in EBITA that brings me to the OpEx on page 15, Chuck already mentioned when it comes to OpEx steering, we always try to finding a Smart Balance to swiftly adjusting the cost base to the macro environment, while securing enough funding to capture the many growth opportunities. We continue to see in the marketplace.

Excluding ForEx effect of EUR3 million. Sequentially, we reported OpEx up by EUR12 million which is year-on-year stable. Our efforts to flexible as the cost base to stay resilient in the face

of volatile markets and to further improve our ability to steer investments in the places with the highest long-term return are paying off. As, as already mentioned the good gross margin performance provided some extra space to support our brand-building and both with our investment to support the digital road map. Finding the right balance between tough cost management and nurturing our growth engines. It remains a key priority. And given the tougher macro environment, we will tighten our belts accordingly. Let me close the chart with the confirmation that we are fully on track to deliver our cost saving target of 9,200 million annually by 2019. And now on page 16, let me share some light what it all means for our cash flow and balance sheet, so we reported in quarter two 2019 a positive free cash flow of EUR25 million which is an improvement of 35 million in absolute term. It's the first positive cash flow in the second quarter for a very long time. In fact we look back for more than 10 years. The main driver for the good free cash flow was the change in the French subsidy system under the new system we receive the subsidy without delay. There is a more than three-year wait for and free cash flow in quarter two, includes an increase of operating working capital and the significant decrease of income taxes paid. Both impacted by the timing of payments. In fact it's largely the reversal of what happened last year in quarter two. The last bullet on the left shows, days sales outstanding, which is virtually stable versus last year. Quarter one '19 on a 12-month moving average on the right hand of the chart going straight into our strong balance sheet, our net debt position improved by 143 million whereas quarter two 2018 to 2,026 billion please note this includes the lease liabilities related to IFRS 16 that's reported to you, this is optically a slight upward effect on our leverage ratio. However pre IFRS 16 our leverage ratio -- , is 1.2. This is 1.3 last year in quarter 2. This adjusted leverage ratio will also be the basis of our unchanged capital allocation strategy going forward. For 2019, we see a further improved free cash flow was 2018. And finally, let me reiterate that the outstandings CICE receivable of EUR491 million will be collected in the coming four years of which about 105 million will be received in quarter four 2019. Also, please be reminded that we will pay a special cash dividend of EUR1.11 per share in quarter four. On top of the EUR2.27 we paid already beginning of this quarter.

So, and finally, on page 17. Let me summarize the key messages to provide you with an outlook for quarter three, 2019. Firstly, it was good to experience another quarter of solid operating performance competitive topline trends and balanced cost management delivered against the backdrop of a low economic growth in some of our main markets. June trade in line with quarter two. Secondly, we are pleased to be able to report ongoing positive gross margin trends. We are definitely better positioned to monetize the added value of our services in tight labor market with our pricing tools gaining further attraction we see Q3 gross margin to be in line or better than last year. However, slightly lower sequentially driven by seasonality and thirdly, while market conditions are uncertain Randstad is very well positioned to capture growth opportunities in the future. Our portfolio is much more diversified than 10 years ago, it will be a full confidence in the ability of our people to quickly adapt the cost base to new economic realities. We see OpEx to come down slightly sequentially and please note quarter three has a positive 0.9 impact on number of working days. Well, this concludes our prepared remarks and I hope we would to shed some light on our quarter two results we will be delighted to take your questions. Yes, .

Questions And Answers

Suhasini Varanasi, Goldman Sachs

Good morning, everyone. Just a couple From me, please. You mentioned in your exit rate that June was in line with 2Q and early indications that July was basically in line with the 2Q number. So that does makes it, I mean the July still a negative number? That. And the second question that's the first one I can ask the second one later. That's okay.

Unidentified Speaker

Okay. July stuff. The goal we have two weeks of volume that's just too early.

Unidentified Participant But it was a negative number basically that is that, what it means.

Okay, got it. And the second one is on the perm growth you have been getting a nice a boost on the gross margin because perm has been growing nicely. I suppose it has been slowing though in Europe over the last two quarters. What are you seeing in the market. I mean is there risk that there is a hiring increase and the growth flows further and therefore there is an impact on your gross margin as a result?

Jacques van den Broek, Chief Executive Officer

Yeah. It is not everywhere, in Europe, we still see quite some growth in France and in Italy and in Spain. So it's not across the board. And yeah, we have our American business. We still looks good, Southeast Asia are still looks good, so is going down. But yeah, and perm is always the toughest to go away. You know it's quite volatile so we don't provide an outlook for our Staffing business even have let alone perm so working hard on it, to keep it growing.

Unidentified Participant

Got it. Thank you.

Operator

Okay. So the next question comes from the line of Tom Sykes from Deutsche Bank. Please go ahead.

Tom Sykes, Analyst

Yeah. Good morning, everybody. Firstly just on technical one on the depreciation number is 8 million lower. And I think you had any one-offs last year and in Q1 it was flat, so why is that 8 million lower. Please? 3% benefit to the EBITA.

Unidentified Speaker

Hi, Tom. I need to take that offline. So we will get back to normal.

Tom Sykes, Analyst

Okay, fine. And then is it possible just to say how much actually if your sales is Argentina. And then also just could you possibly expand a little on why the French operating profit was so much better when revenues. One, please.

Unidentified Speaker

The Argentinean business is around 250 million probably less.

Unidentified Participant

of annualized sales

Unidentified Speaker

Because there is, there is also inflation there.

Unidentified Participant

So you need exactly.

Unidentified Speaker

We you also need to grow our, but then still doing well relatively in that market, that's why we took market share. So in that sense. Very happy with the performance

Henry Schirmer, Chief Financial Officer

Yeah, it's a mix in France. It's a mix of Perm still doing well. Our OC business, our Professionals business doing well, which comes in above the Board. So that helps. It's a more profitable business, then our French average so those are the main --

Unidentified Participant

And OC is growing and you're getting leverage on OC as well as -- it being a mix benefit that OC getting leverage

out of that business -- itself it's same margin higher.

Unidentified Speaker

Yeah, it's a business that comes in with a higher EBITA, higher than the French business overall. That was one of the

reasons for investing more in that business. acquisitions, we announced our in-debt space and it helps our

improvement of our results.

Unidentified Participant

And when you look at the growth outlook for just OC particularly you probably have a bit more visibility on that? what

can you say about the sort of H2 growth outlook for OC should it continue -- at the same rate?

Unidentified Speaker

Yeah, we're not doing outlooks for individual businesses. It certainly the French part is doing quite well. I

absolutely happy with that and we hope that they can keep it up.

Unidentified Participant

Okay. Many thanks.

Unidentified Speaker

Anvesh Agrawal, Analyst

Hi, good morning. I got two questions, first on the legislation there is through the balance labor market act in the Netherlands, it's due to come through in Jan 2020. And my understanding is that it will increase the cost of fixed term employment and also could impact your pay-rolling business, so maybe if you just kind of give us some brief overview of what you see there and how should we think about the impact next year on your Netherlands business. And the second one is on the cost benefit. So this 90 million to 100 million cost saving that the run rate should we assume that the benefits comes weighted or have you because given you have now completed the migration of your IT system. So should we expect more benefit in into what you had in when so far.

Unidentified Speaker

I'll take the first one on the Dutch it's early days, because we now go talk to our clients to say, okay, so what is your business look like, what is happening in your temping business you're payroll business. And do you one more Perm. So it's very, very tough to call in terms of effects. So we are working on a program to go out to all clients and discuss the consequences of this law regarding their workforce as ups and downside. So a bit early. But can -- Sorry -- can you give any example like where you had a similar change in the regulation in any other geographies. And what was the impact there. Or this is pretty unique just because I had a feeling of it -- ?

Yeah. Let's first comment on the effect of the law

Unidentified Speaker

It always goes wrong so politicians think if they increase the price of flexibility. There will be fit more fixed work that's not going to happen. So we're working very hard with our clients, but

also with regulators to say, you know, the risk is that you get more bad badly regulated work, so that's the first one so that's our advice to the government. Second of all, what we see with most of these laws. Is that the effect is always way more limited than we actually and efficient going forward. So early days, but let's come back let while probably after Q1 next year to see what immediate effect a .

Unidentified Participant

Okay. And the cost one, please.

Unidentified Speaker

Yeah. Anvesh on the second one on the cost benefit. Actually, we don't see any phasing impact or more benefit flying into H2, and it's our ongoing OpEx.

Anvesh Agrawal, Analyst

Okay, that's clear. Thank you.

Unidentified Speaker

As probably also good to mention that the objective to do the transformation we mentioned is not predominantly to save costs. As you know we're digitizing the company. And with that comes an IT infrastructure that should be cloud-based. We still and we took a quite aggressive projects and the way to do this. So it means that we are well equipped to handle our digital transformation.

Anvesh Agrawal, Analyst

Okay that's almost clear. Thank you.

Konrad Zomer, Analyst

Hi, good morning gentlemen. My first question is on the margin development in the US, which I think looked very strong. Can you maybe explain in a bit more detail, why your margins were up so much year-on-year? And my second question is on the financial impact in Germany of the government chipping in. Can you may be quantify the impact it might have on your performance there? And my last question is, given the slowdown, which continued in Q2, but the fact that June was slightly better than May. Can you give us the organic revenue decline of May. Please?

Unidentified Speaker

Yeah. Shall I take the first one on US margin. Hi Konrad. Thanks for the question. So the US margin actually. First of all, it starts very good pricing discipline and there. So we have been able to so price for scarcity in the labor market. We definitely see that coming through also being slightly helped by better mix in there and

Henry Schirmer, Chief Financial Officer

You can imagine with a slightly Europe. We've, we needed that help from the US business to compensate for the overall perspective. So such better gross margins so overall good cost management, but you've heard Jack talking about it we feel that we can actually invest a little bit more into the to capture more growth.

Unidentified Participant

Okay.

Jacques van den Broek, Chief Executive Officer

Yeah, Konrad -- May and June are always very tough month because of all the holidays falling left and right and in May and in June, so I wouldn't make a big scientific effort on the growth rates in May and June. That's what I also mentioned that objectively, if you look at June. It's slightly better than May. But we think it's too early to call that this is the end of the decline because it's such an uncertain environment. So we really need to look at the return and in September is going to be crucial month to really read it and so on the, -- in good English in

Germany that means that if the people work 10% less per week. The net effect for them is 2%, so that's good. In a sense that we keep our whole body of people on board in this sense to weather the storm a bit and the financial effect for our people is fairly limited. Very happy with the corporation. We had from the German government in this both on willing to do this, but also on the sweetness of the response, which we think is a best practice in Europe.

Henry Schirmer, Chief Financial Officer

Just one other comment on the -- the growth rate within the quarter, there were several investors that made a point to us earlier this morning about the fact that if April the volume trends continued in line with Q1, and you were still growing in Q1 and June was in line with Q2, which was minus 1.7 then, -- and analysts can do your calculation and come up with quite a negative number for May. So it's not necessarily about the actual revenue decline in May that I'm interested in, but it's just the trend looks like it's still deteriorating.

Jacques van den Broek, Chief Executive Officer

Yeah, -- I mean when we talk about April we only talked about one out week when we last met. So, actually we see pretty good profile in quarter two. Let me put it like that. And is not currently declining more but we also don't see an uplift. So it's a pretty stable picture in volume it's a pretty stable picture and then month-by-month. Yeah, it is very much the holidays. Also the fact that the Dutch from the Belgium business went into quite a steep decline into the quarter overall, it's a pretty

Unidentified Speaker Picture again easier comparisons in quite some markets, but let's see if that happens.

Konrad Zomer, Analyst

Okay. Well, that explains it a little bit. Thank you very much.

David Roux, Analyst

Unidentified Participant

Good day, gentlemen, just two questions from my side. The first question relates to the change in the French subsidy system. I was hoping you could give us the actual months of the cash inflow included in your free cash flow. And was there any benefit, perhaps to gross margin in the period from the change in the system? And then my second question relates to automotive? Can you just remind us what group revenue exposure is to automotive, and then in particular to German automotive. Thank you.

I can give the particular on German automotive, which is 22% to 25%, so quite hefty, but our overall German business is roughly 8% of the global picture. So it what does down quickly, on a global. So on the global it's a I don't know, less than five probably. But in Germany, to a lesser extent, Belgium, Netherlands. It's a sizable part, so that's why it hurts.

Henry Schirmer, Chief Financial Officer

On your first one, David, on the change of , we've got it earlier that we see overall a quite a neutral picture for the P&L and France. But what we did say is that probably the first three quarters will impact the five basis points in gross margin and then the quarter four plus 15 we stick to that guidance, more or less. And I think you can, you can work with that one.

Unidentified Participant

Okay, thank you very much.

Kean Marden, Analyst

Good morning. Do you agree with manpower comments regarding the French finance bill impact on corporation tax they made last Friday and would you be looking to take a similar approach in the third quarter to the one that they guided.

Unidentified Speaker

In general, we agree with it but what we would say is that we guided for corporate tax rate between 26% and 28% and we stick to that guidance. It might, kind of, shifted a little bit upwards. But it's more or less in the same ballpark.

Kean Marden, Analyst

Yeah. Understood. Thank you very much.

Andy Grobler, Analyst

Hi, good morning. Just a quick follow-up on the Automotive question from earlier.

Unidentified Participant

You mentioned that automotive took about 1% of group negative impact on revenue and you also mentioned that it was about 5% of the total Group when you're talking about that 1% decline, is that just the pure automotive that 5% or the related to-related activities. And if so how big is that related activity, if possible, please.

Unidentified Speaker

Yeah, it's a related activity so it's, -- of course, the first year -- or for second year and then it becomes tougher to really because you got logistics and then you got logistics that two-part for automotive and part not. Yeah and you have a sort of in Germany, a bit of a growing uncertainty in general. So I think this is about as close as we can get to really calculating what it means for us.

Unidentified Participant

And what was because I guess if you've said that it took organic growth down by 1%. You must have done that calculation. So, what proportion of the business, where you're talking about when you did that?

Unidentified Speaker

No, that is, -- that is directly attributed to first and second-tier automotive and logistics and that we can -- really directly related to automotive.

Unidentified Participant

So more than the 5% that is specifically auto? Just to be clear.

Unidentified Speaker

Yeah, that I didn't know because as I said is water down. So the bulk is in these three countries. That's why we can do if you ask me the question, how much is of our total sales. We do have automotive in Spain, we do have automotive in Italy. I don't have, -- the 5% is more of a ballpark. And the 1% is quite, quite a factual.

Unidentified Participant

Okay. And just, sorry, just one last follow-up on that in terms of what your auto related clients saying in Benelux and Germany, what is the feeling coming from them, are they still very cautious. Are they a bit more hopeful in end of this year and next year.

Unidentified Speaker

Yeah, well my predecessor always said if you don't listen to your clients you go bankrupt. And if you listen to them also -- so they don't know they are quite uncertain because trade war. Right. Yeah, there's nothing, they can influence in that China very tough to call and then there is, yeah, there is the diesel legislation. So what's probably frustrating for them is that they cannot influence a lot. So those are currently the conversation we're having with them, so it's quite unclear that's also the reason why in Germany specifically, in this case, we're still taking case down for the rest of the year to be on the safe side.

Marc Zwartsenburg, Analyst

Yes. Thank you, good morning guys. First the question on Germany two actually -- the measure to take out half working day per FTE. When will that really kick in. If you , let's start with that in Q2 or should we see the full effect in the second half and does this help closing the gap, a bit with last year's margin gap is that, how big is the saving from -- such an element. And then, -- then also in Germany. You have a new front office implemented in cloud projects did, -- did it have any additional impacts on the rest of trend there and did it also being extra cost for Germany, in the second quarter, should I, maybe just a little bit for that as well. And what does the rollout plan of the front office implementation. Going forward, how far are we there -- on a more countries lined up? That's my first question.

Unidentified Speaker

Yeah. So the front offices is cost we took so it's not going to be more cost going forward. Yeah, It will have effect on our cost for the second half of the year, but we still don't rule out that maybe throughout the end of the year, we're going to use up again. So I'm not guiding yet for the impact on cost it started 1st of July Marc by the way, but the effect in the beginning is more limited because -- people are all on holiday and then it doesn't count in that sense. So is going to help. Absolutely. But we're not guiding yet for the exact number.

Marc Zwartsenburg, Analyst

And the working day savings. Can you quantify that. How many millions are we talking about?

Unidentified Speaker

Yeah, that again as I explained that's we're not guiding for the absolute number here.

Marc Zwartsenburg, Analyst

Okay. And then in terms of M&A, there was a here , could we see more rolling in. Now that the market is perhaps a bit more and that maybe sellers are perhaps more willing to talk, is there anything we should expect there in terms of pipeline, and what kind of size?

Unidentified Speaker

Yeah, what, I've seen historically is that it never really picks up, we're also not buying on weakness. That's not our strategy. So we're working on sort of a pipeline mostly in our statement of workspace you might see us also doing something in our space entering new countries where we don't have an activity yet, but it's relatively small, small stuff we like it, but as we said -- going back to our capital allocation strategy. We're basically on the strategy with organic growth, so I wouldn't expect too much on a short notice.

Marc Zwartsenburg, Analyst

In terms of all the capital return policy your special -- in this respect , would that have any impact

Unidentified Participant

On position over acquiring a company to say well, maybe not the CICE goals, it will. And then the special dividend or will you simply look at the Rocky basis like this is a better return which on investment. We will do it anyway.

Unidentified Speaker

Yeah, well, we always said about the special dividend, that this is to be discussed every year based on the economic outlook based on the debt level and if that were to be the case also. So some M&A, but at the same time we only talked about mid-level M&A so in our capital allocation policies. There is the potential of mid size bolt on M&A, always. But we look at it every year point, we need to make on dividends is actually quite positive. We're very optimistic about the free cash flow development for the rest of the year if this is the scenario for the rest of the year. So in that sense from a dividend point of view. Still good news.

Unidentified Participant

And then maybe a final one, if I may, on the temp margin it the improvement again 10 basis point of course is our numbers, do you see some underlying further improvement in terms of the impact of positive pricing or is that now fading a bit out at the market as we can.

Henry Schirmer, Chief Financial Officer

No. For the, for the remainder of the year. We've, we are not guiding on gross margin that we've now a bit of a track record in our gross margin the booking day impact was slightly negative in the quarter also CICE so have negative, but we do see good pricing coming through. It's very hard for me to make a forecast on that, but we also see that the ability, the muscle we're building around data to be used in that regard. It's increasing so I'm on positive about it.

Marc Zwartsenburg, Analyst

All right, well thank you very much. . My questions. Thank you.

Unidentified Speaker

Okay. Thanks, Marc.

Bilal Aziz, Analyst

Good morning, everyone. And just one from my side. And do you anticipate, I know it's very early days. Actually, but any large go changes from the French labor Reform Act to give it early days, but what impact do you see on your French business from that side. Thank you.

Unidentified Speaker

Now, Bilal. Congratulations on your numbers. Also today, but that's a side note, I know it's early days. So we've had discussions before on legislation, we always take the approach that we want to know what it really is and then we'll inform you guys on what we think the effect will be. So this is, as you state yourself days.

Bilal Aziz, Analyst

Sure. Thank you.

Operator

HSBC

Hello, good morning. Three quick questions from me. In terms of the first one. How much your gross margin improvement in 2Q by business mix. Next, follow up excluding seasonal --

Unidentified Speaker

Excuse me-- those are very hard to be picked up could you run that again ?

Unidentified Participant

Hello, can you hear me now?

Unidentified Speaker

Yeah. Yeah, we can hear you.

Unidentified Participant

How much of the gross margin improvement in 2Q, was driven by pricing the systemic impact and the follow up swiftly excluding the seasonal effects. How should we think of the pricing impact from in 3Q. Secondly, in terms of, can you give us a sense of what is the extent of decline in manufacturing in Europe, in particularly, Germany, France and Netherlands. And the third one, what is the impact of wage inflation across geographies in terms of, give a sense of what they're doing. Thank you.

Unidentified Speaker

Wage inflation in US is between 2% and 3%, in Europe is while it helps in Spain, given the, but that's quite, quite a specific one on the minimum wage so wage inflation in Europe is still happening, but not yet to the effect of the U.S. yeah, so we talked about sequentially a lower

gross margin so and gross margin effectively you always need to compare with the same quarter last year. Given the seasonality in our business and as we said, we still expect -- you never know. But as we are trailing now that the margin and the improvement that we've seen throughout the year we'll continue into Q3.

Unidentified Participant

Okay. In terms of the manufacturing decline, which is can you just give a sense of that in terms of how that was doing?

Unidentified Speaker

No, because then we give guidance for the quarter and we don't know. As I said, we're now in July, our clients quite uncertain. So what they come back within September.

Unidentified Participant

Okay, thank you so much.

George Gregory, Analyst

Good morning, gentlemen. Just a couple from me please, firstly, just following up on some of the previous questions around the gross margin, your Q3 guidance would appear to indicate that the gross margin would be broadly stable year-over-year, whereas you You've indicated that you would expect the positive price mix dynamics to persist. I'm just wondering, how we can reconcile those two place. And secondly, I just wondered if you had any thoughts yet on the previously tabled plans and France to extend the payroll subsidies to compensate for the loss of CICE, which I think what you to come in in October. I just wondered if you had any thoughts as to whether those were still likely. And if so, what we should be factoring it for them. Thanks.

Jacques van den Broek, Chief Executive Officer

Yeah, George. Good morning. I'll take the last one. As stated previously, on this call. We don't do this if what might happen if it's a law and its past, then we'll know and we'll share the effects with you too early. We've seen that before. Then it comes. It's a different version for us, it's a bit of a waste of time, we just take it if it's effect and then again, we're going to talk about with you.

Henry Schirmer, Chief Financial Officer

Yeah. On the first one all on gross margins. So what we said is kind of gross margin actually slightly down driven by seasonality, but stable or slightly options last is that it gives to kind of a window of 10 to 20 basis points, which is I think and accepted margin of guiding us and it's, it does expect that we have no big change in our top line of course working day effect. You've seen slightly positive next next quarter. So with that, I think we can can work out gross margin.

Jacques van den Broek, Chief Executive Officer

And again, George. The drivers we saw in Q1 and Q2 are still at playing Q3. So that's as much as we can do.

George Gregory, Analyst

Thank you.

Operator

Okay. So we do not have any more questions in the queue. So as a final reminder, (Operator Instructions). Okay. So no

questions coming through, so I'll hand back over to your host.

Jacques van den Broek, Chief Executive Officer

Yeah. Well, thanks for calling in. We wish you all a great holiday and a great summer. And in the Netherlands. It's 34 degrees so always good for our beer and ice cream business. But we'll see if that helps the top line wish you great summer see you next quarter.