Randstad Q4 2023 Earnings Call - 13 February 2024 09.00 am CET

Sander van 't Noordende: Thank you very much, Caroline, for this introduction. This is Sander, the CEO of Randstad. Good morning, everyone, I'm here with Jorge, Steph, and Temur from investor relations, and I'm pleased to share our Q4 and full year 2023 results with you. In the fourth Quarter revenue decreased by 8.6% as market conditions continue to affect our performance across the globe.

Growth rates differed across regions, Southern Europe, Latam, and APAC showed modest declines, whereas Northern Europe and our North American businesses contracted more significantly. Against this backdrop, we delivered a robust gross margin of 20.7% with around 15% of gross profit generated from our perm and RPO businesses.

Due to our continued focus on cost, we have delivered an EBITA of EUR 265 million with a solid EBITA margin of 4.3% for the quarter. In full year 2023, we delivered revenues of EUR 25.4 billion, 6% lower year-over-year and an EBITA just shy of EUR 1.1 billion, a solid EBITA margin of 4.2%. Free cash flow was particularly strong, growing by 19% to EUR 883 million, a record for Randstad.

But above all, I'm absolutely pleased with how our teams navigated the challenging conditions in their markets during the year, showcasing once again that adaptability is an integral part of our DNA. And as you know, we're always balancing supply and demand to make sure we have the right teams and the right cost structures for the demand we are serving.

Based on our performance and our solid balance sheet at the end of 2023, we're proud that this year we will be returning around EUR 632 million of capital to our shareholders. We believe this proposal strikes the right balance between confidence in our business, the ability to execute our strategy, and attractive capital returns for our shareholders.

Looking ahead to Q1, we remain vigilant about the macroeconomic situation in our markets. Our January organic revenue decline was in line with Q4, however, I'm confident that our deep and long-term relationships with talent and clients, our market insights and our adaptability, of course, position us well to navigate the current environment. In the coming year, we will first of all focus on making sure we have sufficient capacity in the market to get back to growth, but at the same time, we will continue to streamline our indirect cost base. Because this will enable us to continue to invest in our partner for talent strategy that we launched during our Capital Markets Day in October.

The world of work is changing, and with a partner for talent, we now have a clear strategy for the future with a new growth algorithm to drive higher growth and profit at the scale that only Ranstad can do in this industry. And I'm pleased to say that in the past months, we've made some great strides.

First of all, we're implementing our specialization framework by organizing ourselves around operational, professional, digital, and enterprise talent solutions. Last year we introduced digital and enterprise and today over half our markets have already implemented the specialization framework around operational and professional, with the remaining markets following in 2024. Secondly, we launched initiatives in the key growth segments in our markets. For healthcare, we will launch in six markets, and for finance in 10 markets in the first half of this year.

Thirdly, delivery excellence. The rollout of our talent and delivery centers is already ongoing in six out of our top 10 markets and will be started in nine more markets this quarter. Finally, our global delivery capability in digital has doubled to 1000 people over the last five months. So we're on our way and I look forward to providing further updates in due course. Let me now hand over to Jorge to present the results in more detail.

Jorge Vazquez: Thank you, Sander, and good morning everyone. Let me start by saying in Q4 we delivered good numbers in a challenging macroeconomic environment. Seasonal trends remained intact, but on the low end of the previous years. We did see a slow finish to the year, and as you will see later, it has continued into January, as Sander already highlighted, with a slower ramp up after the holiday period.

In many markets, manufacturing PMIs and industrial production remain at very low levels. Financially, as we'll see, Q3 and Q4 are actually quite similar in many key indicators, such as revenue, gross profit, and EBITA. Under the hood though, the impact of a very sudden slowdown in December in permanent business was offset by temporary business and seasonality, pretty much the picture of the year. Our adaptability and more diversified portfolio continued to pay off in 2023.

One point of caution, Q3 and Q4 in 2022, as we discussed before, were the strongest in Randstad's history. We continue to lap an extremely tough comparable period, and in many parts of our business this is still the second best year in history overall. More on that later. We remain confident and ready to benefit from the recovery when it comes.

Let's break it down and let me now discuss the performance of our key regions, starting with North America. Our new leadership team, led by Marc-Etienne, is driving the direction of our operations. We have the new specialization framework. Sander just alluded to it, the digital marketplace rollout. And as we discussed in our capital markets day, a push to free up investment capacity. We are on our way.

The US economy appears strong, still hiring is concentrated in a few sectors, healthcare, government, and hospitality. And as you know, Randstad historically has less presence in these sectors, making it a little bit more challenging for us. If we look into the quarter, North American revenue dropped by 16%, stable with Q3 with Perm declining 31%, whereas in Q3 it was 40%. Breaking it down for more detail, US staffing and in-house declined by 17%, again, lower demand across almost all sectors, but slightly better than Q3. And we have had this consecutive growth since June-July.

Professionals revenue was down 12% and challenged market conditions in line with the rest of the market affecting the IT service sector. The EBITA margin was still a solid 5.1% as we continued to adapt our operations.

Moving on to the Northern Europe slide, on slide 8. Our Northern European countries operated also in a challenging business environment. We did see the typical seasonal trend in a few key markets, but in others we saw an increased slowdown. And it is one of the regions with more renewed headwinds as we enter 2024. At the same time, in line with the rest of the year despite the slowdown in manufacturing, we protected EBITA margin at 4.6%, still delivering a sound EUR 93 million this quarter alone.

Breaking it down per country. Starting with the Netherlands, revenue was down 8% year-over-year. Remember again, and here I have to remind you, this was impacted by reduced COVID related business. We were red hot in the Netherlands last year, the highest quarters ever. So this number needs to be put into that perspective. We did see a softened decline across all sectors except primarily the public and automotive industries and a gradual easing towards the end of the year. Perm was down 28% year-over-year, EBITA margin came in again at a robust 6.4%.

In Germany, revenue was down 18%, reflecting a very challenging market. Portfolio choices early in the year also played a role here, but also last year, remember, we were growing from Q3 to Q4. The profitability of Germany was in particular also impacted by a sudden reduction in perm and sickness rate, particularly high this quarter.

But let me break it down for concepts. Our combined staffing and in house services business was down 20% again. Perm suddenly declined 29% in the quarter, even more in December, flipping from earlier growth in Q1, Q2 and Q3. In addition, we experienced, as I said, the highest sickness rate ever. The quarter's EBITA margin was 1.9%.

In Belgium, revenue declined 6%, which is broadly stable sequentially. As we've been seeing throughout the year, Belgium is one of our long established number one markets with good portfolio diversification and has shown good adaptability. EBITA margin again came in at a solid 5.8%.

Other Northern European countries, I'll break it down, reflecting a little bit of mixed performance. Nordics was down 18%, Switzerland was down 11% and our Polish operation was up 8% year after year, concluding once again a very strong year. EBITA margin came in at 2.7% for these countries.

Moving on to a slightly different image, southern Europe, UK, and Latin America on slide 9. Our Southern European businesses have experienced varied growth trends and shown adaptability. To put it into perspective, we achieved an EBITA in this quarter of EUR 137 million, at a margin of 6.3% for the region. It also has resilience and we are increasing capacity already selectively in some units to enable a normal ramp-up period in 2024.

France's revenue was down 5% yearly, impacted by softening demand across most sectors over the quarter, with only the public sector again and automotive going up. Professionals delivered again solid growth of 3%, but a decline in staffing and in-house and perm offset this increase. France ended the quarter with a solid EBITA margin of 6%. There has been a slow start of the year, partly affected by the recent strikes and supply chain issues.

Turning east slightly to Italy. Italy's revenue decreased by 2% compared to previous year but remained stable compared to last quarter. Moreover, the company returned to growth in December which is encouraging. Perm again continued to experience growth of 9% quarter over quarter again increasing despite already having a very high base last year. Italy finished the quarter with a remarkable profitability of 8.1%.

Looking at Spain, Portugal, and Iberia, revenue remained unchanged in the fourth quarter as you can see, which is an improvement compared to the previous quarters. In December, we were actually back to growth in Spain as well. The staffing and in house businesses remained stable while the firm decreased 2% compared to last year. On the other hand, professionals' business continued to grow, this time by 5%. Additionally, remember we acquired Grupo CTC at the end of October, further strengthening our position in the outsourcing space for the years to come.

Across the other countries in the region, revenue and profit performance were mixed. The UK was down 17%, reflecting primarily portfolio choices and challenging market conditions. On the other hand, by contrast, Latin America is up 11% with Brazil and Chile particularly growing significantly which shows our ability to drive growth in profitable segments.

And now moving on further is to Asia Pacific on slide ten. The Asia Pacific region also shows a mixed growth trend with more challenging macroeconomic conditions, especially in the second half of the year. Nevertheless, Japan continued to show structurally good performance with 4% growth and sound profitability. We still have significant opportunities in the second largest staffing market in the world and we continue to take them. Our digital business recorded constant double-digit growth throughout the year plus 20% in full year 2023.

Australia and New Zealand though saw continued softening in demand, mainly impacted by the holiday period. Its revenue declined by 9% in quarter four. Despite the challenging market conditions, the healthcare business which we are investing in continues to grow throughout the year. It grew every single quarter.

India grew 1%, showing resilience and continued focus on our portfolio and overall the EBITA margin for the region was at a sound 4.6% in this quarter, which brings me to our global businesses on slide 11.

The global businesses segment declined 18% year-over-year. Remember last year, we were still growing in global businesses. Our EBITA margin for global business came in at a negative 0.7% in the fourth quarter, though this is a mix of different realities. Monster's revenue stabilized sequentially but is still down 12%, similar to Q3, and pretty much in line with the broader job board market. The RPO business has experienced a decline of 34% compared to the record high in 2022 and a very strong Q4 the previous year. We have reduced our programs, though responsibly, reconfirming our ability to ramp up and down when necessary. To put it into perspective, we recovered more than 75% of the

gross profit decline in this year, meaning a recovery ratio well above the 50% of the remaining businesses. Despite this, it is still the second best year for our recruitment process outsourcing, where we have established ourselves as a leader. Our RPO service is also where we recover the fastest with our clients, and the leading position we have established is now the basis for future growth. We have a significant pipeline of global deals, the largest ever, with a shift in dominance from MSP programs to RPO deals.

Also on a very different dynamic, our outplacement business, Risesmart, continued to do very well, growing and scaling significantly with heavy digital delivery, and this concludes the performance of our key geographies.

So now let us walk us through our group financial performance on Slide 13, starting with revenue. The group's revenue for the fourth quarter was EUR 6.2 billion, which is a decrease of 8.6% year over year. As discussed earlier, the year ended slowly and most sectors experienced weakness except for public health, education and automotive. There was a regular seasonal impact in Northern and Southern Europe, but Germany, APAC and our digital businesses experienced a deceleration.

We'll cover gross margin and Opex later, but the quarter's EBITA was EUR 265 million with a solid margin 4.3%. Integration and one-offs were 45 million this quarter. Of these, 9 million are related to regular M&A integration costs. The remaining 36 million is restructuring expenses, reflecting structural adjustments in our operations. Remember, we operate with a rule of one year payback period at max. This quarter, intangible assets amortization and impairment totalled 58 million. Of these, 45 million is related to goodwill impairment in the UK and China. The remainder is just associated with the regular amortization of intangible assets.

Net finance costs in quarter four were EUR 22 million, primarily reflecting higher interest rate expenses and a higher net debt level compared to last year. Foreign currency and other effects also negatively impacted us this quarter by EUR 10 million, and primarily related to weakness of the US dollar. This quarter, the effective tax rate for 2023 was 18.3%, due to a tax benefit of EUR62 in Q4 related to reassessing the valuation of our tax loss carried forward position in Luxembourg last year. There was a similar benefit, remember, of EUR 97 million. The projected effective tax rate for next year for '24 is between 25% and 27%.

Having said that, let's turn the page and look at our gross margin dynamics on slide 14. The fourth quarter gross margin was a robust 20.7%. Our temp margin contributed 50 basis points to the overall gross margin. Despite the decline, our temp businesses are more resilient than our perm and fee HRS services. The temp margin once again reflects that resilience, but also our discipline in value-based pricing. That price and volume effect combined means that our temp business has shown more resilience in our overall gross profit. As highlighted before, perm revenue decelerated sharply towards the end of the quarter, falling by 26% in Q4, in line with Q3 to EUR 123 million. This leads to a negative gross margin impact, also of 40 basis points. And again, as you heard, we saw a similar trend with RPO. This year a normalizing labor market has impacted RPO, which declined by 34%. Permanent and RPO jointly represent today 15% of the group's gross profit in the fourth quarter, which brings us now to the opex bridge on slide 15.

One important point. This one is sequential. Overall, happy. Adaptability is crucial to be well positioned for recovery in our industry. If we get it right in one quarter or year, we must ensure it is also right again precisely the following quarter or year. That's how we operate at Randstad. Q3, as we discussed, had some impacts, as it typically does from holidays and other incidentals. But again, the cost discipline is structural. Agility and adaptability puts us in a stronger position for the future. That's why we do it. We can make the right choices, find the correct balances.

In Q1 to put it into perspective, we had an opex level of EUR 1.1 billion. In the fourth quarter, opex was EUR1bn and 16 million and pretty much flat sequentially versus Q3. This represents an outstanding adjustment in an inflationary year. For the full year, we achieved a recovery ratio of 48%, well in line and on the high end of our adaptability targets, for which I'm grateful to our teams and it

gives us stronger options in 2024 and onwards. These emphasize our field steering model and our business model's adaptability.

With that in mind, let's move on to slide 16 which contains our cash flow and balance sheet remarks. Our free cash flow for the quarter came in at EUR 291 million pretty much in line with last year. On a full year basis, we have generated a free cash flow of EUR 883 million, which is EUR 144 million higher than in the same period last year in 2022. As discussed in our CMD, when we look at our projections and different economic models, we come back to the same conclusion. Our cash flow is much more resilient and predictable than could be expected.

DSO, a metric important for us, was 53.3 days, 0.1 days or pretty much flat year-over-year again here. Perhaps waving the flag to our finance teams, our overdues continue to improve and we are proud to remain in control and apply strict capital discipline. Yesterday as well, we announced a credit rating from Moody’s. Randstad has received a solid long term investment grade rating with a stable outlook of BAA1. The rating will simply allow us to diversify our funding sources going forward.

That brings me to the outlook on slide 17 and let me start first with the activity momentum. We talked about the seasonality before. We anticipate the usual seasonal impact on our business in Q1, the industry is normalizing to the normal seasonal trends. The uncertainty around macroeconomic conditions we faced in Q4 did result in a slow finish to the year, but also with our clients hiring fewer people. Even though January is not the best month to base our analysis on, and you know pretty much why - it is a strange month in terms of recovering from holidays. We did see a slower ramp-up than usual, also impacted by holidays strikes and increasing supply chain disruptions. We are being cautious and expect Q1 to be challenging with revenue growth trends in line with Q4 continuing into Q1 2024.

The Q1 2024 gross margin is expected to be modestly lower sequentially due to seasonality. Q1 Operating expenses are also expected to be marginally higher, reflecting yearly price adjustments and merit increases. This is our base case, but again, we will continue to work with scenario planning and adaptability. We remain one, vigilant like Sander said, two, cautious, but also three, ready. While we continue to adapt, we are assessing or preparing investments to ensure we are outperforming in a future recovery. We are in a position of strength as I mentioned before, and in our industry, the one relationship that works is the relationship between headcounts and gross profits. Please note, there will be a negative 0.8 working day impact in Q1 2024 as well.

But before I go into my last slide, just to bring us back to Capital Markets Day and our partner for talent strategy, as a reminder, we will be making changes to our reporting before publishing Q1 2024 results. Our primary segmentation will be based on geography, while secondary segmentation will provide further detail on our specialization strategy. We will provide 2023 quarterly numbers already stated in advance of the publication of Q1 2024. And as we close 2023, let's also return to our proposed return of capital to shareholders on Slide 18.

In line with our capital allocation policy reconfirmed during our Capital Markets Day, we propose, subject to shareholder approval, a regular dividend per ordinary share of EUR2.28 per share and an additional cash return per ordinary share of EUR 1.27. This brings a total dividend amount to around EUR 632 million or 78% of our adjusted net income at EUR 814 million.

The regular dividend payout reflects the regular 50% of our adjusted net income. The additional cash return stems from the strength of our balance sheet, which had a net debt of EUR306 million at year end, and the leverage ratio of 0.3 excluding leases. We still have a share buyback program of EUR 400 million. Today, we announced a fourth tranche to repurchase up to EUR1.6 million ordinary shares. Updates on this program will follow as usual.

And let me conclude with just one or two reflections on the entire year as it is Q4 and we wrap up the year after. After two years of impressive growth, we experienced a decrease in our industry business

activity, with our significant markets decelerating and the winding down and partially natural winding down of pandemic-related business and projects.

Our number one priority was protecting our margins, and we successfully reduced costs by almost EUR 250 million within a year. Despite the challenges we faced, we did achieve a 48% recovery rate for the entire year. More importantly, we protected the investments we wanted to prioritize. This is a testament to our team's resilience and agility - we call it the best team in the industry. Sander mentioned it in Q3 results and during our CMD. We balanced for value and delivered a strong year in pricing and cash flow, ensuring we are in a strong position today. And precisely from that position of strength, with the same discipline as always, we can now choose to invest and prepare for growth and recovery.

We are more diversified than ever. We are focused on our clients and talents, and we can ramp up capacity where we feel logical.

Sander van 't Noordende: Thank you. Thank you very much, George. We will indeed continue to invest in our partner for talent strategy because we can. But before we wrap up our prepared remarks for today, I would like to point everyone's attention to our annual report that we're launching today because as the world's leading talent company, our ambition is always to contribute to the communities we operate in by promoting fair labor markets and fostering equity at work. And promoting equity isn't just the right thing to do. It's also a business imperative. To deliver the best talent to our clients, we need to consider all talent pools, especially in the talent scarce world.

And I'm proud to say that in 2023, Randstad was involved in more than 100 social innovation programs with the aim of improving employee engagement and promoting equal opportunities for underrepresented talent.

This company is made by people, for people. And with our new partner for talent strategy, we reinforce our equity ambition. So I would encourage everyone to read the annual report and learn about what makes Randstad tick. Let me conclude by expressing my gratitude to all of our more than 640,000 Randstad talents and people around the globe for all their hard work for their clients over the past year.

Q&A

Q - Simone Sarli: Good morning, gentlemen. A couple of questions from my side. So, first of all, when you talked about the trends on a geographic basis, can you tell us if you are seeing any impact from the Red Sea disruptions across your business? And then secondly, regarding the guidance for Q1, comps are a little bit easier, and North America seems to have stabilized. So how should we think about the current quarter and if there is any big difference in terms of month-over-month comps?

A - Sander van 't Noordende: Thank you, Simone, for that question. Let me comment on the Red Sea. Yes. That is impacting our clients' businesses, of course, primarily here in western Europe. So in Germany and France, the exact impact of that is, frankly, hard to say, but it's one of the things that our clients mention when we discuss activity levels with them.

A - Jorge Vazquez: Let me take the second one. Good morning. So on the outlook, I would say, actually there is kind of a welcoming back of regular seasonality in the industry, obviously, after the strange effects at from 20 into 21 and 21 into 22. So we saw it in Q3 and Q4, with many of our countries showing a ramp up in line with seasonality, others not. Also now we expect in Q1, the regular seasonal behavior from Q4 into Q1. I think if you look at our numbers in particular, and again, heavily impacted by '22, you saw that last year we had a decline from Q1, which is unique, into Q4 - basically as we were winding down a lot of the revenue we had specifically on Covid related projects. Now, I expect the comparables effect to actually have a bigger impact towards the end of the year. So the more we go into the year, the more the comparable effect will happen.

Q - Suhasini Varanasi: Hi, good morning. Thank you for taking my questions. Two from me, please. Your temp gross margin has actually been very strong in 2023, despite the declines that you've seen

on the volumes. Can you share some color on what's been driving the strength and if that can continue into 2024? I'll follow up with the second question after the answer. Thank you.

A - Jorge Vazquez: Thank you, Suhasini. Good morning. Our temp margin is the result of two big pushes we have in the organization. One is, like Sander mentioned before, a careful value discussion in Ranstad. So make sure that we balance volume and price, and that has had consequences and positive consequences in terms of temp margin and ultimately value for Ranstad. But the second, and reflecting a bit a talent scarce market, at the beginning of the high inflationary environment, a lot of discipline in making sure we passed on wage inflation and everything that was right for Randstad to pass to our clients. That discipline translated into pricing practices, and we now see the impact of it again in this quarter.

Q - Suhasini Varanasi: My second question is on the green shoots and the potential for investments. I did get some of the verticals like healthcare, government, hospitality, et cetera. But the regions that you want to invest in, is that the US and maybe some countries in Europe. Is it possible to share some color there? Thank you.

A - Sander van 't Noordende: Let me say maybe a little bit more elaborate because I guess there are lots of questions out there along the same lines. So, what do we hear from our clients? First of all, the global economic backdrop is still uncertain. And obviously, everything that's happening in the geopolitics doesn't help - Ukraine, we just talked about the Middle East. And of course, not only in the US, but in many of our markets, it's an election year, so clients are cautious.

They take it one step at a time. Like I say, '23 was the year of the recession that never came, except in some parts of Europe. And even there it was mild, but it was generally the mindset of our clients. We take it one step at a time. At the same time, we're hearing what I would call, emerging optimism. And that means destocking is coming to an end. Inventory levels are plateauing. Some countries show higher industrial orders. We see significant demand for RPO and MSP, as well as for BPO in the talent acquisition space, which means clients are preparing for the uptick in activity.

And in technology, we hear digitization is not yet ready. And now with AI, there's even more work to do. And all of this sort of against the backdrop of some indicators that are moving in the right direction, inflation coming down, PMIs creeping up, et cetera. The long pole in the tent, of course, is what the Fed and the ECB are going to do and how much confidence that will give our clients to go back hiring, go back to invest. So these are all, I would say, bright spots that give us, I would say, cause for optimism that things will get better over the course of '24.

Then to your question, what do we do? And we do pretty much all of this in all our markets. At the Capital Markets Day, we have identified our growth segments, skill, trade, finance, healthcare, life sciences, digital skills, and we're investing in those across our markets and of course in enterprise and digital as well. How do we do that, we go through our portfolio of businesses week in, week out, and we decide to invest, and this is with meticulous precision, to invest in those parts of the business.

And this can be in one city, in one industry, in one country that is performing well so that we can get more growth out of that part, out of that business. So we reallocate people, or we add people there where we think there's opportunity. So this year is all going to be about making sure we have enough capacity in all our markets to get growth in the tank. And where we speak of adaptability, it's now increasingly focused on our indirect cost in terms of delivery excellence. We've invested in delivery centers and talent centers, and this is delivery, but it's also growing because if we deliver well and we use talent centers, we can increase our fulfilment rate, which gives a better client experience and of course also a better talent experience.

We're investing in digital talent centers where we have doubled our capacity. And this is people working for our clients. It's not people doing benchwork, so to speak. In North America, we're rolling out our digital marketplace. We discussed that also during our Capital Markets Day. We now have a plan to roll that out to the whole of North America over the course of 2024, again to enhance client

and talent experience and to increase fill rates and talent utilization, which helps in growth in enterprise.

There's a lot of demand for BPO services around the talent acquisition processes, interview scheduling, and in those spaces, we just closed some very significant contracts with some of the large tech companies. And then last but not least, we're chasing a strong pipeline in RPO and MSP.

So just to give you more color, clients are still cautious. However, we see opportunity for growth, and we make sure we have capacity in the market to make that all happen in all our main markets.

Q - Rory McKenzie: Three questions, please.

Firstly, permanent hiring sounds like it worsened a lot across the industry in December and has started this year more slowly than hoped as well. How does that tally with your comments around seeing some optimism from clients? Do you think this is one more adjustment down before recovery? So, to get your thoughts on the different segments of the market you see doing well.

And then secondly, and related to that, on gross margin, that lower permanent volume, of course, impacted Q4 for only one month. Are you therefore expecting a greater year-over-year headwind to gross margin from the permanent contribution in Q1?

And then finally, I saw you restated your Q3 gross margin bridge with these results, which gives a slightly different perspective on the temp versus perm contributions. What was behind that restatement or reclassification, and what have you changed in the business? Thank you.

A - Sander van 't Noordende: Let me say a couple of words about perm hiring, Rory, because your question was, what does it mean for our clients? I talked about some bright spots. I mean, these bright spots are bright spots, but they're not yet changing, or they have not yet changed the actual buying behavior of our clients to date, I would say. But again, we're optimistic that over the course of the year, things will improve and get better.

A - Jorge Vazquez: So the gross margin, first of all. So Q1, we will likely see the normal seasonal impacts, and that means our Q1 gross margin most likely we're guiding now, will be slightly lower. And that has to do, as you probably remember, with social burdens at the beginning of the year, bench management typically also sometimes sickness and carnival related impacts. So that is just the beginning of the year. Furthermore, indeed, there continues to be a mixed impact from perm and RPO, obviously bringing the overall margin down.

These businesses contribute differently. So I think ultimately, I always like to say our gross margin tends to work with our opex in terms of adaptability. So even in the context of what Sander just mentioned, in terms of investments, our teams always manage very clearly where we want to be in terms of adaptability per quarter.

You're right, so we restated a bridge on Q3 and it's just basically correcting it for something that was a lapse in the Q3 publication.

Q - Rory McKenzie: Just to follow up on the gross margin, did Q4 have any negative impact on the higher sickness rates that you called out in Germany, for example, anything you'd quantify and point to, or is it just a seasonal pattern that we're now observing again?

A - Jorge Vazquez: The net impact, probably you don't see it. There has indeed been an impact of sickness rates and the impact of that in margin in Germany. But again, we see that into Q1 as well. So, I prefer to be guiding for a lower Q1 margin than we had in Q4.

Q - Andy Grobler: Hi, good morning. Just a couple from me, if I may. Firstly, on wage inflation, could you just talk through what you saw in Q4 and kind of expectations for the beginning of this year, both from an external perspective and also from your own internal cost base. And then secondly, on one off costs are a bit lower than they were last year in Q4, but still above trend. Can you just talk

through why that's the case? And also when you expect those to normalize back to historic levels, is that this year or are we going to have to wait a bit longer? Thank you very much.

A - Sander van 't Noordende: Thank you, Andy, for those questions on wage inflation. There's still wage inflation out there. It's now lower in the US than in parts of Europe. In the US, it's around 4%. In Northwest Europe, it's more in the zone of 6, 7%. France, Italy. In the Latin countries, it's a little lower, around 4%. In terms of the effect wage inflation is having on our business, we have sort of seen that normalized over the course of 2023. And that's pretty much where we were in Q4.

A - Jorge Vazquez: So, on the one-off, yes, still a significant number. Again here, the policy is simple. We are looking for structural adjustments. Most of that number, a large part of that number comes from Germany and North America. So it's not surprising, given, let's say, what we see in those markets. We actually appointed one of our most senior leaders to start pushing through a more structural revisit of our footprint, or at least our workplace strategy. But as it stands, these were structural adjustments. Payback time, less than one year.

These are not necessarily field or client-facing activities. I mean, if you look at our productivity at the moment, and also pointing a little bit towards why we want to start back into early cyclical investments if the context is there, our productivity is actually holding up quite well and even slightly up in many metrics.

So in a way, we've done our homework in making the company fit enough to now be ready to prepare and ramp up for the recovery to come. And in a way, that's what we're doing and we continue to do that every quarter as needed.

Q - Andy Grobler: So if I could just follow up on that ongoing review of the footprint, does that mean that one-off charges through the year are going to be similar, 24 to 23? Is that a decent starting point on internal wage inflation? What are your expectations for this year for your own costs?

A - Jorge Vazquez: Yeah, on the first one, by nature they are called one-offs. So it is hard to put a number on it. But again, to put things into perspective, we spend approximately EUR 200 million on accommodation costs a year. It's hard to say. It won't be a massive number. I mean, first, let's review it. We don't take lightly closing branches and offices.

So this is first and foremost a review and making adjustments where necessary and logical. Just to point you towards what we were doing and not necessarily the numbers yet.

On the second question, wage inflation is stabilizing. As you've probably been reading in most countries, I mean, the industry and in general the world has had over the last 10, 15 years, normal 2% to 3% inflation. We see things stabilizing, but again, it's very clear to our teams that whatever increases we have in our operations, they need to be accommodated either in terms of pricing or through more efficiency to always have an adaptability target in line with what we defined. So from that perspective, I think stabilizing back to normal levels and it's just part of business.

Q - Marc Zwartsenburg: Good morning, everybody. A couple of questions. First in Germany, quite a markdown there in your topline performance. And George, I think you mentioned that part of it is related to portfolio reshuffling. Can you indicate the proportion of the impact of that reshuffling or is it really the market getting quite a bit worse due to Red Sea impacts, automotive, what have you? Maybe a bit more color on Germany, please.

A - Jorge Vazquez: Obviously the market is getting worse. Our German results have been consecutively increasing, quarter over quarter, quite profitable businesses. So that has an impact for sure because we actually see the loss of it or the impact on revenue. What we did see in Germany, and that has nothing to do with portfolio, is a sharp deceleration in the markets from Q3 and Q4. I mean, in my time here, I've never seen such a long run of low PMIs and especially manufacturing PMIs in Germany. And if we actually look at output, so industrial output, it's actually at the lowest point in many years in history. So it is a dire moment at the moment. At the same time, as Sander

said, there are bright spots. There are signs of potential order books starting to improve. We are leaner and fitter than we've ever been.

Q - Marc Zwartsenburg: There may be a question on your opex guidance. You expect it to be a little bit up. How do you see it on the FTE side, given that you're down year-on-year double digit? Also wage impact is getting a bit less. And I hear Sander also saying, well, the focus will be more on indirect cost, bringing that down while investing to get the growth in the tank. Is it fair to assume that your guidance then on the opex is still a bit cautious? That it will turn out a little bit better than what you're guiding?

A - Jorge Vazquez: I mean, I wouldn't say cautious, but I'm saying we're keeping options open. There is a net impact of merit increases, wage inflation is stabilizing, but it's still there. We start with lower FTE, but we're also talking about investments. And I think if we look at the total of that, it is likely that we have a slightly higher opex level again, always within a frame of adaptability year over year.

So, we guided continuously for a 40 to 50% recovery ratio. Again, we saw a sharp decline in revenue and we delivered 48%, if I'm not mistaken. The teams know what to do. We're keeping room and adaptability either to invest or if necessary, to go down further. We've only had one month. It is very difficult to start anticipating a year based on the month of January.

Q - Marc Zwartsenburg: Can I squeeze in a quick one on the FX impact, because the impact was quite significant. Do you see that going forward?

Jorge Vazquez: It is something that we hope we have the other way around next time. Yes, it was large. I mean, you saw the weakening of the US dollar versus the strengthening of the euro and against many currencies. Let's hope next time it turns our way. I mean, we manage the company market by market and everyone knows what we get for just the reality of being exposed to many currencies in many places in the world.

Q - Marc Zwartsenburg: Also, the Argentina peso is in there. Does it have a large impact?

A - Sander van 't Noordende: That's true. That's true, that's the hyperinflation, the correction of Argentinian peso. That's a good point, yes.

A - Sander van 't Noordende:Okay. On that note, Caroline, thanks everyone for joining the call today. And let me thank again all of our 640,000 talents and people around the globe for their extremely hard work over the year of 2023. And also into Q1, we truly appreciate it. Thanks a lot.