# Q1 2018 Earnings Call

# Company Participants

- Jacques W. van den Broek
- Henry Schirmer
- David Tailleur

# MANAGEMENT DISCUSSION SECTION

## Operator

Hello and welcome to the Randstad First Quarter 2018 Results Call. Throughout the call, all participants will be in a listen-only mode and afterwards, there'll be a question-and-answer session. Just to remind you, this conference call is being recorded.

Today, I'm pleased to present the CEO, Jacques van den Broek. Please go ahead with your meeting.

## Jacques W. van den Broek

Yes. Good morning, everybody. Good to talk to you. I'm here with Henry Schirmer and our IR team to take you through our current earnings call of the first quarter of 2018. Time flies.

I'll move immediately to slide 5. We think it's a good start of the year. Good growth, 7.4% and quite some ongoing market share gains. Our Inhouse grew at 17%, so very happy with that. Also perm, 13% growth, it's also quite a good start of the year and broad based also in the U.S., 8% growth, but more about that later.

It's a bit of a tough call on the quarter because there's quite some one-offs and incidentals in there. So, there's €8 million forex headwind, which of course we cannot do much about. But there is one less working day and also there's sickness. I'll talk more about that in our German and our Dutch business. As some of you might have experienced personally, there has been a flu epidemic, which hurt our business.

We think overall, these three elements account for a €15 million to €20 million less EBITA. Still, if you then look underlying, we're quite happy with the quarter, again, the growth 7%, and a 2% increase in cost base. And you might wonder if we are under investing in the business, which we're not. You need to take apart the business investments, 5% growth in our regular business. But it adds up with the cost savings in Monster to a 2% cost base. So very much looking at that. Stable margin development, 30 basis points down. So, overall, there's a good underlying leverage in the business. Meaning for us that for the rest of the year, we feel quite comfortable with the guidance we gave you at our Capital Markets Day on a mid-single-digit growth. Of course, we don't know for the rest of the year, but let's take that as a guidance, and an improvement in our EBITA percentage.

Very proud of our French business. Again, with everything I just mentioned, having a 10% increase in EBITA percentage despite CICE and all that, very good. Ausy in France, doing very well with high-single-digit growth. Very happy with that new part of our company. The Dutch business growth increasing. So, yeah, in that sense, a good start. A theme which will be recurring throughout the presentation is our pricing discipline. You know we've been doing that in Germany and in the Netherlands and in France, but now that we have a sizeable business in Italy, we also see that those choices are recurring regularly. So, in a way, you could say, we could grow faster, but we're balancing growth and profitability here.

Slide 6. As I mentioned, gross margin down 80 bps. So it looks like a margin pressure. But 50 bps is related to Monster, Monster's gross margin. So, if Monster – and I'll spend some more time on Monster later in the presentation, but if Monster has a negative growth, which it has, it looks like margin decline in our book. But on the rest of the business, a 30 basis points margin decline.

OpEx, a slight increase. We said a clear increase but a slight increase. ICR of 41%. We guided for 40% to 50% throughout the year, trying to get through the higher end of the range to 41% for this quarter. Again, with the calendar effects, happy with that one and a stable 3.8% margin. And perm 13% growth, stable for Q4, but we think a good result and it has a positive effect of 10 basis points on our margin.

Slide 7, the regional split. Growth very much driven by Europe, but also the rest of the world, outperforms the markets such as France, Belgium, Canada, Germany, and Spain, again with a mix of profitability and growth. Inhouse, I mentioned in my introduction 17% growth, 18% in Q4 so stable double-digit growth, meaning that the growth in Europe is still in this segment, which is, you might say also, partly early cyclical certainly in Southern Europe.

Top-line growth 7.4%, 8.7% in Q4. Comps are pretty comparable. So, good there. Driven by Europe 9% versus 11%. Again, calendar effects here but pretty stable. And the U.S. still a stable market, but you've seen a peer of us on minus 7%. So, happy there. I'll shed some more color on the North America markets. The rest of the world, driven by mainly Japan, 11%. So, a good contributor to our total book.

Slide 8, North America. So our Staffing and Inhouse business is growing. Our white-collar business less so. As I mentioned perm up 8%, so a sign of what we see in the market. It's tough to get people so clients are hiring quickly. Or we get a lot of questions on, okay, North America market economy is doing well, why don't we see more demand? Yeah. We do see growth in the blue-collar part of our business less than the white collar.

U.S. Profs, a mixed picture although our IT growth went down from 6% to 3%, we're still happy with the positive development here. Our U.S. Profs business is actually three businesses. It's a solution space similar to Ausy, so where we sell our service, double-digit growth, very solid. We have our mid-market, so the retail part of IT staffing. This was a suffering part for a long time, now sees growth, happy with that.

But on the other hand, there's always something. Our lifelines which were growing last year, a few of our bigger clients in the financial sector predominantly have toned down spending in the first part of the year. We don't know if it's structural. But anyway, that's why growth goes down slightly but still a good improvement. On the other hand, our financial and accounting business that we call Professionals is although somewhat up, yeah, improving still, sees negative growth, a Canadian business doing very well head of market, clear market leader there, and overall, an improvement in EBITA.

Let's move to the Dutch business, slide 9. Accelerating top line, happy with that one. Again, nothing new here, strong focus on client profitability. Our SME growth is 15%. You might remember the presentation that Dominique Hermans gave at Capital Markets Day where we do support our people in the sales in this market through technology tools, well, that is paying off, so that does well. Professionals business also up, and then, yeah, still EBITA margin is slightly down. So, this is back to my introduction, calendar effects but also sickness.

In the Netherlands we carry our own costs, so at around 4% sickness percentage we can cover that. But we went to 6% to 7% in February and also March. So, it was high but it was also prolonged. We do see this going down into April, so it will be less of a damper on our margin development because this goes into margin. Overall pricing pressure is stable. We do see, on the one hand, some pricing power due to scarcity, still some clients that want to buy at a cheap so then we don't go there.

We are nearing the market still have under-performance but we're closing the gap. One point we're not so happy with and you might have seen it, at the perm development although perm grows in quite some market it does not in the Netherlands so this is something we would like to improve going forward and action plans are in place.

Going to the French market, you know we've sacrificed clients here, still 10% growth here, very happy with that. Professionals up 13%, and perm, for the third year in a row, a very, very hefty growth. So, this is really – and it's not new from many of you – this is really a business where our Tech & Touch strategy is really working, and overall, an improved result. We're very happy with our performance in France.

Germany is probably, at the moment, the toughest market to call because there's a lot of things going on. There have been strikes, unemployment is lower, is low in Germany. So, we have seen quite some strikes, predominately in the metal-related sector, automotive also, to get better collective labor agreements. So, we've seen closures, we cannot deliver our temps when there are strikes going on. Equal treatment, so the next phase of equal pay, after nine months in a job, candidates need to get to equal treatment. So the build rate goes up. We have seen around a 1% damper on our growth because of people being hired after these nine months. So, that's been a new element here.

And lastly, sickness. So, it's a slightly different system from the Netherlands with – in Germany, everybody is on our books and sickness hurts us. First of all, because people are not working; second of all, because we need to pay more. And we've had historic sickness levels in Germany. Again, going down in Q – in April now, but still hurts us in Q1. And this goes directly into the margin and we had two less working days in Germany. So, all in all, underlying from a volume point of view, quite a stable situation, we still see good growth. But a lot of things going on in Germany currently.

Belgium, far less to mention. It's all good. It's above market with great returns. So, my Belgium colleagues will probably say I'm selling them short, but a very stable performance in our Belgium business. Italy on slide 13, yeah, the biggest grower last year and still a 19% growth in Q1, this is very much a business where we balance profitability and growth. We can still grow faster here. But we balance this, and you see it in our EBITA performance, up 70 basis points, doing quite well. Iberia comprised of Spain. Spain last year touched the €1 billion mark, very happy there, and they continue to grow 13% into Q1. Perm, also 13% and at and above group average return. Portugal, from 12% to 6%, this looks like a slowdown in the market but is, again, very much driven by calendar effects. The last part of our Portuguese business is actually call center business where we own infrastructure and we actually operate call centers. So this calendar effect hurts us a little bit more than in our regular business.

Then to other European countries. On the UK, still good growth. But it doesn't transpire that much into result. Unfortunately in the UK, not so much related to the UK, but we closed our Middle Eastern business in Dubai. This was managed rom the UK because it was originally UK businesses was a loss-making small business, so we closed this quarter. And apart from the UK, all other markets, Nordics, Switzerland, Poland, Austria, all show good growth.

Rest of the world, I mentioned it already. Japan, double-digit growth. The Japanese market is a very scarce labor market. Our management does really well on pricing. So the growth really transpires into good returns. Australia and New Zealand, while our Australian business had slightly less growth but still doing well. And we've seen a good ramp-up in our Chinese business from a negative growth of 10%. This is predominantly a perm business into China up 6%. So pretty good. And Latin America although small still shows good profitability.

Then our two global businesses, first of all Randstad Sourceright showing double digit growth here in actually all regions, slightly less in the U.S., but still a very good returns. And double digit growth in Europe and in Asia, so happy with that business, very much a business of the future for us.

Then finally Monster. So, as you know – well, first of all, we're very happy with the fact that we have created and we are creating these big data lake of 350 million profiles. Whenever you read something about the labor market and almost wherever you go, scarcity is hitting us, and there's a change in the labor market. So, candidates are not going to look for jobs. Jobs need to look for candidates. So, we're very happy with the fact that we are creating this big data lake.

At the same time, we've got three areas that we want to work on with Monster. The first one is repairing the company itself, the second one is Monster as a facilitator for Randstad growth and digitization, and the third one is new business by combining the strong points of two businesses.

Monster, on the one hand we're investing in growth, and we're going to continue to do that, and we're investing in technology and marketing. What we found is that the Monster brand is still a very strong brand. We've created and implemented a mobile app to apply and generate traffic. And traffic at the end of the day leads to business in this business model.

We are creating new products, for example, a premium job ad where we have a very customized campaign to look for the right candidates, not just in the Monster database but also on social media, of course, with all privacy concerns. We've got a résumé service, so it's sort of an online career coach comparable to the business model of

RiseSmart which is now on the Monster site. This is all getting a lot of traction. but at the same time, the traditional business is still going down as you've seen and we've not yet conferred to that trend.

So, hard work here, very happy with the Monster for Randstad. We have now integrated Monster technology direct linkage to the database of Monster in the U.S., in the yard business of the Netherlands, in Germany, and in the UK so that means that thousands of Randstad consultants and recruiters now have immediate access to this data. We know they make no matches because of that. We know they've got access to more candidates. Funny enough, we cannot really measure that at the moment because it's way too much administration to really see what people are coming from. But looking at our growth in many markets, we do see this helps, and we're rolling this out in the second half of the year into Italy, Switzerland, Sweden and in the other Dutch businesses. Again, I mentioned the Monster new job app. What we're now working on and we already have that in the UK and the US is when you apply through Monster, you immediately also apply to Randstad. So, there is a lot going on. We're not saying it's not a lot of hard work, but still we're very happy with Monster.

And then finally, new business models, we're laying low here. What I can tell you is at our Capital Markets Day, we talked about this intermediating small perm, and our business model, we're currently trying to set up is really aiming at this, this intermediating small perm. Sounds a bit confidential, but we never know who's listening in, so more to follow throughout the year.

So, that's it for me, and then moving to Henry for our financial results, and I'll be back with you for the outlook.

## Henry Schirmer

Thanks, Jacques. So let me go straight to page 18 of the income statement. As Jacques mentioned, our revenue grew by 7% organically. Our gross profit grew by 4% impacted by Monster mix effects. We will mention Monster a couple of times despite its relatively small size as the nature of the business is fee based. OpEx was about under control with a 2% organic increase year-over-year mainly driven by Monster cost savings, and this 2% was below the 5% of Q4 by doing continued investments in digital.

EBITA margins stable at 3.8% percent while our underlying EBITA grew 7% organically. Underlying ICR adjusted for sickness and working days was around 50%, and as a result, our adjusted net income grew by 6%. And lastly, on that page the effective tax rate for quarter came in at 24.2% in respect to our guidance of 24% to 26% ETR for the full year, probably more towards the lower end with a cash tax rate of 20%.

On page 19, we take a look at gross margin bridge. You can see the gross margin was down 80 bps year-over-year of which 50 bps was due to the mix effect of Monster and 30 bps pressure on temp margins facing headwinds of working days, higher sickness rate, and CICE changes year-over-year. However, underlying, we see pretty stable price environment.

Go straight to page 20. The OpEx chart, you can see here we are tight on cost control as OpEx was virtually flat for the quarter four and just up 2% year-over-year. We faced Fx tailwinds both year-over-year and sequentially, while investment and growth in digital were partially offset by our cost savings program. But we continue our balanced approach between doing the right investment in future growth and seeing the company as it is.

Then straight to net debt on page 21. Net debt quarter one, we arrived at €1.059 million, down from €1.129 million last year. The leverage ratio was 0.9x, down from 1.1x. As you know, return on invested capital is a strong focus area for Randstad, rising to 17.6%. And as we shared with you at our quarter four results, we have a strong focus on organic growth, combined with selected M&A. We aim to further improve the ROIC of the acquisitions done in 2016 and 2017, which is progressing well so far.

DSO was up to 53.8 days, largely impacted by the unfavorable combination of closing the quarter and the weekends and timings of Easter. Also, we faced the impacts of unfavorable timings of payment, partially related to tax. And finally, there are ongoing adverse mix effects due to fast growth and high DSO countries, mainly in Southern Europe. Please be reminded here that our quarter two will be impacted by our regular dividend payment, followed by the special dividend payment on the 27th of September.

Then straight into the free cash flow chart on page 22. Our free cash flow, actually, you've seen it already, was impacted by the timings of payments. Around Easter, worth about €80 million, of about €50 million is based on working capital and €30 million is due to timing differences and tax. The remainder was offset by an additional €15 million absolute EBITA.

Please let me reiterate here that we are very disciplined on all areas driving cash, as we confirm our full-year 2018 outlook of an increase in free cash flow in 2017.

Jacques, back to you.

## Jacques W. van den Broek

Yeah. Thank you, Henry. So that brings us to the outlook, early days, but – well – so, we have pretty stable growth throughout Q1 and our volumes so people at work in early April indicates a continuation of the Q1 growth rate although there will be an adverse 2.9% comparison into Q2 mainly into the back end of Q2 when in June last year we grew quite high.

Gross margin broadly stable sequentially and a moderate increase in underlying operating expenses investing where we think we need to facilitate growth but still below the growth level of course. And contrary to Q1 there will be a positive 0.4 working day impact in Q2 and also Q3 and Q4 will have a more favorable working day. Again, for the full year, we maintained the outlook of our further EBITA progression assuming mid-single digit growth throughout the year as we stated at our Capital Markets Day and our ICR for the full year will be in between 40% to 50% at the higher end of this range. And with that, we want to give over to you for questions and answers.

# Q&A

## Operator

Thank you. We have our first question from the line of Bilal Aziz from UBS. Please go ahead. Your line is now open.

**<Q - Bilal Aziz>**: Good morning, everyone. Just two quick questions from me please. And can you perhaps help us understand the building blocks of the gross margin going into the second quarter, particularly around the gross margin given the potential working day impact and with respect to price mix as well. And finally, tied to that, your latest expectations for how Monster evolves both from a gross margin and EBITA level perspective going forward. And secondly on wage inflation, just broadly a bit of a mix sort of bag in terms of expectations coming out from some of your competitors. What are you seeing in some of your key markets right now? Thank you.

**<A>**: Yeah. Well, nothing to add to what we just stated on both gross margin development into Q2 and Monster. So, we do see stable margin development. So, we said 30 bps down, might be some tailwinds from working days absolutely, but stable underlying. Yeah. And Monster is what I just explained, so no new developments here since the last two weeks.

On wage inflation, yeah, we get a lot of questions there. We do see wage inflation in the U.S. around 1% to 2%. In Europe, not yet massively. We do see in some pockets really the jobs which are high in demand, so in the technical part definitely. But, yeah, as you might know, still a lot of wages in Europe are driven by collective labor agreements, hence, the strikes, for example, in Germany. There will be some results probably going forward, but we don't think this will massively improve our growth. It always comes through very late in the game and very, how do you call it, general.

**<A>**: Bilal, if I may, I'll give you a bit more color on the gross margin. So, most components will remain stable. Expect that the changes would be sickness, working day, and that's a tailwind. And then there was some tailwind from M&A in Q1 and that will be gone in Q2.

**<Q>**: Sure. Brilliant. Thank you.

## Operator

The next question comes from the line of Paul Sullivan from Barclays. Please go ahead. Your line is now open.

**<Q - Paul Sullivan>**: Good morning, everyone. Just a couple for me. Firstly, the restructuring charges and integration costs you took, what is your expectation for the second quarter and second half of the year? Should we assume more of the same and are they really truly exceptional because we are – we saw restructuring costs all the way through last year relating to Monster? It looks like we could be seeing them again this year. So that's the first question.

And then just secondly, your – have you got any further thoughts on or any more information on how you feel CICE would change going through next year? And whether you could update us on the tax implications and the impact from the tax rates next year from CICE? Thank you.

**<A>**: Yeah. Paul, let me do the restructuring, so that will gradually come down throughout the year. Yes, there are real restructurings and below the line and they're also significantly lower than previous years related to of course the M&A activity which is really less.

**<A>**: On CICE, yeah, there's a lot of talk. We don't think it's really worthwhile to elaborate on it if you don't have real plans yet. It does feel like there's going to be a change this year. But as you know, Macron is visiting the United States currently, so he's not working on CICE. As soon as we know, we'll fill you with and also with the tax consequences.

**<Q - Paul Sullivan>**: Okay. All right. Thank you.

## Operator

And the next question comes from the line of Konrad Zomer from ABN AMRO. Please go ahead. You line is now open.

**<Q - Konrad Zomer>**: Hi. Good morning, gentlemen. My first question is on Monster. Q4 saw a very small operating profit for the first quarter since you acquired it. Can you tell us what the operating loss was in the first quarter, please? And also do you think that Monster is on track to achieve an operating profit for the full-year 2018? And my second question is on France. Can you tell us what the underlying organic growth rate of your French business was, excluding the Ausy business which obviously did very well.

**<A>**: Yeah. Konrad, good morning. I'll do the French one. So actually our French business is growing faster than the Ausy business. So the 10%, Ausy is high-single-digit and then double digit for the whole portfolio. On Monster, in general, yes, we had a small profit in Q4. We also mentioned that we want to continue to invest. So Q1 saw a loss and it's going to be – now we're not going to stop investing because we think that's the only way to, first of all, improve this business. And second of all, to also improve and also use the capability of Monster for Randstad.

So there's a lot of investments in mobile, in combining databases and in marketing. We probably could arrive at a breakeven. But if then we should stop investing, we're not going to do that. So the development of the top line is going to decide for the rest of the year the actual underlying result. But we're not ruling out this might be, again, a small loss. But then on the back of investments and not so much of the business in itself not being in control.

**<Q - Konrad Zomer>**: But can you tell us how big the operating loss was in the Q – in the first quarter? I mean, was it like a few million euros? Was it more than €10 million?

**<A>**: Konrad, we can help you a bit. So, if you look at global businesses, you'll see an EBITA swing of €4 million year-on-year, which is to a large degree Monster. And we said last year Q1, Monster did a small loss. So, it's a small figure of last year, plus the €4 million change.

**<Q - Konrad Zomer>**: Okay. And then one other small question. Can you indicate to us what proportion of your U.S. Professionals business, of your revenue should generate with large financial institutions?

**<A>**: Yeah. Well, it's an important part, but it's not like more than half or something, it's – I don't know, something between 20% to 30% probably. US finance and accounting, which is 15% to 20% of IT.

## Operator

The next question comes from the line of Marc Zwartsenburg from ING. Please go ahead. Your line is now open.

**<Q - Marc Zwartsenburg>**: Yes. Good morning, gentlemen. I just want to come back on the gross margin again. You mentioned that you had at the sickness rate and the working day impact, that should become a tailwind. But then you have Fx dropout, but, yeah, sequentially, it doesn't really matter. So, isn't the guidance then on the gross margin for the second quarter a little bit cautious given that the mix effect should – and the perm is still doing well, that it tells you that you have a bit of tailwind from that as well?

**<A>**: Yeah. Well, it could be, better cautious than reckless. But, of course, Marc, the overall gross margin is also a mix base. And if the Italian business continues to grow, through Inhouse, you get a mix effect still going forward, so it's tough to call. If you think it's cautious then, yeah, there are some tailwinds here from a calendar effect and from a sickness effect absolutely.

**<Q - Marc Zwartsenburg>**: And then the line of thinking around the cost base throughout the year given that the growth margin is what it is in your guidance for Q2 is sequentially flat and moving that forward. How should we look to the cost base going forward? Because Monster is squeezing in well already quite a significant chunk of cost savings in Q1? How much more can you take out in the second half and how much more room do you have to keep the cost base growing less than the top line?

**<A>**: In general for the group or for Monster specifically?

**<Q - Marc Zwartsenburg>**: Yeah, for Monster, and then a little bit added to that, also how we should think about the cost base going forward over the quarters?

**<A>**: Okay. Yeah. Well, for the group of course we always balance growth with cost. So, what I said 5% cost increase in the regular business and then going down to 2% basically on the cost savings on Monster. Yeah, it largely depends on, first of all, our appetite for investments, which we are going to continue to do, and hopefully also the stabilization of the of the top line in Monster so that you don't need to cut down on cost further because at some point, you want to stop doing that, of course. So tough to say. We will take out some cost in Monster again in Q2. No plans currently for the second half of the year.

**<Q - Marc Zwartsenburg>**: And then Monster will still be breakeven in Q4 if it's still maintained.

**<A>**: I just gave Konrad the answer, so I hope you were paying attention here.

**<Q - Marc Zwartsenburg>**: Yeah. But nothing has changed to that timing.

**<A>**: Well, honestly, of course, the top line in Q1 didn't materialize as planned So, we need to really counter that

trend throughout the year.

**<Q - Marc Zwartsenburg>**: And then a final one on the Netherlands. Can you explain why the margin in the Netherlands is down despite the top line accelerate a little bit to plus 5%?

**<Q - Marc Zwartsenburg>**: And I recall at the last call that there was some better pricing feasible.

**<A - Jacques W. van den Broek>**: Yeah. In sickness, Marc.

**<Q - Marc Zwartsenburg>**: So, purely the sickness impact?

**<A - Jacques W. van den Broek>**: Yeah. And the calendar, of course, one working day less and really historically high and long sickness. And as I mentioned, any sickness above 4% hurts us in the margin both from the direct and indirect. I'm pleased, by the way, indirect to our own people in terms of cost, but direct in terms of margin. This will be going down. So, in that sense, we're quite positive about our result development in the Netherlands going forward

**<Q - Marc Zwartsenburg>**: Okay. Maybe a final one on the pricing, Jacques.

**<Q - Marc Zwartsenburg>**: You mentioned a few positive signs. So, when you mentioned in February when we had the Q4 results...

**<Q - Marc Zwartsenburg>**: ...if you look underlying, underlying seems that there's some positive pricing. Is it still the case? Is that continuing? Is that strengthening?

**<A - Jacques W. van den Broek>**: Yeah. Absolutely. Yeah. We do see some clients also coming back because they can't find the right people. So, when you look at labor markets in the Netherlands and in France and Germany, yeah, we don't think pricing will worsen and at some point hopefully it will be slightly better. Yeah.

**<Q - Marc Zwartsenburg>**: Okay.

**<A - Jacques W. van den Broek>**: But overall, if you – and the gross margin of course, we grow so much in in-house. That puts a bit of a damper on the overall gross margin, but we have great conversion, as you know. So, that doesn't really hurt our result.

**<Q - Marc Zwartsenburg>**: Yeah. All right. Thank you very much.

**<A>**: Yeah.

## Operator

The next question comes from line of Hans Pluijgers. Please go ahead. Your line is now open.

**<Q - Hans Pluijgers>**: Yes. Good morning, gentlemen. A few questions from my side. First of all, on the CICE, of course, you gave an indication what's happening for next year, but you also indicated that at the beginning of the year, you would, let's say, really work on trying to recoup the decline from 7% to 6%. Could you give some indication how, let's say, the market is reacting to that?

Then, on the U.S. Professional business, yeah, you will, let's say, work on quite for some time to improve the business. IT, let's say, has been doing somewhat better on recent quarters. But at this time, again slightly slow down but it's explained. But let's say are you taking additional measures with respect to the rest of the Professional business because that still let's say lacking. What's your view on that? What's you're feeling on that? And second – and thirdly, on Monster, could you give some indication well let's say the traditional business still is of the total Monster sales?

**<A>**: The last part is no. As you can – we're not going to fully present the Monster business because there's also competition in this space. Sorry about that. On CICE, what you see in our French results and that's why we're so happy. Despite the calendar effect also in France, we improved our percentage earnings despite CICE. So very, very happy there that has to do with walking away from some clients, still growing and the perm of 38%. So, in that sense, we mentioned that we were confident that we would compensate that CICE going down in our results. And so far so good in our French business.

On U.S. Profs, in the sort of the F&A part, we've grouped that closer to our U.S. Staffing business, which is a well-run business which has seen above-market performance. The process in financial staffing in Professionals is similar to Staffing in general. We are combining branches. We do see some early results here that combining our U.S. Profs' F&A business and our Staffing business in similar sectors works. The negative development is also improving but we're not there yet. This is, by the way, a much smaller business. So, €1 billion is technologies and €300 million to €400 million is F&A. Not there yet, but, yeah, we see some improvement.

**<Q - Hans Pluijgers>**: Okay. Thanks.

## Operator

The next question comes from the line of Tom Sykes from Deutsche Bank. Please go ahead. Your line is now open.

**<Q - Tom Sykes>**: Yeah. Morning, everybody. Just going back to your comments on Inhouse. I just wanted to say how much for the Italy growth would you consider came from Inhouse please? And, obviously, you're getting quite strong leverage in Italy and you mentioned the leverage for the Inhouse business overall. But would you be able to just sort of say what your leverage is on non-Italy Inhouse growth if possible because we've maybe seen some peers not generating much leverage there? So, I was wondering how you were getting on

**<A>**: Yeah. Tom, good morning. The Italian growth is pretty broad-based...

**<Q - Tom Sykes>**: Okay.

**<A>**: ...but, of course, what we've seen in earlier acquisitions in Obiettivo Lavoro a new company, we go with the concept to our large clients. So, we get a better conversion on clients. So, that's very good. Yeah. Our conclusion of the overall Inhouse business has always been around 40%.

**<Q - Tom Sykes>**: Okay. And you would consider that in the non-Italy business that you're getting around about that level? Or that's not at the moment what you're at?

**<A>**: So, this is the group picture.

**<Q - Tom Sykes>**: Okay. So, Italy is a little bit higher than that. And then just on the – sorry, back on Monster again. Where your – the traditional business is going down, are you saying anywhere that that's going to competitors with a similar business model? Or you – it's just all disappearing to a different form of business model at the moment?

**<A>**: Yeah. Again, I'm – again, for confidentiality, I'm not going to bone out every part of the business and where it's going. And by the way, a large part of Europe is growing. So, this is very much happening in the U.S., which is a competitive market and a more mature market to begin with. So, we see more of these things happening in the U.S. I don't know if it goes to competition or clients stop doing it or have their own jobboard, that's tough to pull. We don't analyze this to death, but at the same time – and also bringing in new business needs to change the profile of the revenue of Monster going forward. But that's hard work.

**<Q - Tom Sykes>**: Okay. And just in terms of your sort of forward visibility because I guess again, there's sort of a change between February and now, and it seems to have happened relatively quickly. Are there any large contracts that sit within that, that are particularly skew the outlook in Monster? Or is it fairly broad based change in view?

**<A>**: Yeah. Tom, I would like to remind you of the fact that Monster, relative to our total book, is quite a small company. So, I think...

**<Q - Tom Sykes>**: It's quite a high gross profit

**<A>**: Yeah, I think we've given you quite some transparency on this business

**<Q - Tom Sykes>**: Okay. Okay. Fair enough. Thank you.

## Operator

Your next question comes from the line of Rajesh Kumar from HSBC. Please go ahead. Your line is now open.

**<Q - Rajesh Kumar>**: Hi. Good morning, gents. Just trying to understand the divergence between your commentary that sequentially pricing is getting better. But when you say stabilizing gross margin quarter-on-quarter that not implied the Q2 decline of 60 to 80 bps. So, what are the pieces which we need to think about? And then gross margin impact was 30 bps in Q1, but what did the perm gross margin underline did and do you expect that to continue declining in Q2 as well?

**<A>**: Yeah. Again, I think we've answered those questions already. We see quite a stable underlying margin development. We have some tailwind from calendar and sickness in some markets and large part of the decline margin is related to the decline of revenue in Monster which is gross margin. So, yeah, that's what it is.

**<A>**: So, the structural part of the gross margin decline that's really mix effect and CICE. CICE, of course, is we expected whether structural or not with these components you will see in the coming quarters and pricing is stable.

**<A>**: Yeah. And we see a good conversion of the margin into results, in Inhouse and CICE fortunately is fully compensated in our French result.

**<Q - Rajesh Kumar>**: So, sequentially you expect the temp gross margins to go up, but Monster and CICE and the Italian Inhouse mix to drag basically 10 bps to 20 bps?

**<A>**: No. that's not the conclusion. Maybe we should take offline. The temp margin outlook for Q2 is around minus 20%, minus 30% , again, because of the reasons I just mentioned to you. And on top of that, there's more the technical issue of Monster.

**<Q - Rajesh Kumar>**: Okay. Is that an impact number you're giving or like-for-like temp gross margin number?

**<A>**: That's year-on-year, basis points year-on-year.

**<Q - Rajesh Kumar>**: Is the impact number which is contribution times the change or is it the changed number you're giving?

**<A>**: Maybe we should discuss this offline because I'm not sure if I understand you correctly, Rajesh. I will call you after the conference call.

**<Q - Rajesh Kumar>**: Thank you.

**<A>**: Yeah. Welcome.

## Operator

The next question comes from the line of Matthew Lloyd from HSBC. Please go ahead. Your line is now open.

**<Q - Matthew Lloyd>**: Good morning, gentlemen. I apologize for this and I know you think you've answered it, but I'm not convinced that anybody thinks that they understand the answer. So, I'm going it try in a slightly different way. Could you just refresh our memories of what the sort of the KPIs and the remuneration are for salespeople in Inhouse and people sort of working more normally out of the branch network? Because there does seem to be a point where you would expect a bit more sort of gross margin expansion and perhaps a little bit more gearing. Is this that we're now paying people on volumes and speed and less on gross profit growth? Can you talk to us about the way in which the business is now structured and remunerated and why we're seeing the patterns we're seeing except the Monster bit and various other bits? But I think we're also just struggling to understand whether a stabilizing gross margins underlying starts to make for better numbers later in the year or whether there's something else going on?

**<A>**: Okay. Yeah. There's nothing else going on, so we have a stable EBITA return in a quarter where we have one working day less and two large businesses of ours are hurt by sickness. The sickness will go away. The calendar effects will be reversed. Apart from the FX, you're looking at a 15 bps to 20 bps or less result there. So that's why we said that we would – we're confident that our EBITA as a percentage will improve throughout the year.

**<Q - Matthew Lloyd>**: Okay. And as the sort of the KPIs and remuneration within Inhouse and the branch network, we – can you just refresh our memories on broadly what, if I'm a salesman in either of those two sort of structures, I get paid to deliver?

**<A>**: Yeah. Inhouse is the least variable paid part of our business.

**<Q - Matthew Lloyd>**: But the variable pay is based on volume, fulfillment, what – how does that work?

**<A>**: Yeah, overall growth and return.

**<Q - Matthew Lloyd>**: Of sales or gross profit?

**<A>**: Yeah. If you sell at a low margin, you get less return, of course. So, it's more a volume business with tight pricing.

**<Q - Matthew Lloyd>**: Okay.

**<A>**: And it gives us a very stable 40% conversion.

**<Q - Matthew Lloyd>**: Okay. Okay. And in the branch network?

**<A>**: Yeah. We've got 4,500 branches and very different business line. So, that tough to see. That's tough to handle in this call, if you want to have a little bit more color there. But I don't quite understand what's the reason behind the margin – behind the question, because then the reason...

**<Q - Matthew Lloyd>**: Well, they tend to do what you pay them to do. So if they're paid to drive up the gross margin or the total gross margin or the sales number.

**<Q - Matthew Lloyd>**: But if we make the assumption that they're mainly pecuniary in their motivations, then that's what you tend to get. So, I'm trying to understanding whether.

**<A>**: Yeah. No. Okay. But that's good. So, that's why I said we're very tight on growth and profitability as you can see in our underlying market development, if you compare it to some of our peers. So, that means that you can sell, but you sell within a price range. So, it's for you to decide within the price range you get if you want to sell to a client.

If you can sell a client, but it's not within the price range that you need to decide upon, it goes to upper level. And for some clients, it goes all the way up to us, and not just on pricing but also on liabilities and that sort of thing. So therefore, it's both. So, growth for us normally transpires into leverage because that's the pricing cost.

**<Q - Matthew Lloyd>**: : Yeah. I've spoken to people in the industry that tell me that the sort of their habit of going for – trying to nudge-up the mark-up or the gross margin is sort of in a number of the place just isn't there. And you have people who are habituated to sort of taking, perhaps, its RPO, MSP contracts. As I've spoken to other people who's saying, no, no, no, we have dynamic pricing and the guys get paid for. And I have to say that the gross margin performance at the end of the businesses tends to reflect that. Do you feel that there's room to pay the people more to or encourage the people or train the people to use dynamic pricing tools to charge for a forklift truck driver a higher gross margin? Is that still a culture of the business?

**<A>**: Yeah, it's even more than the culture of the business. We have data tools now that some of our businesses, for example, in the Netherlands use and also in France to show scarcity for certain profiles and that then materializes into a price. So, we're ahead of what you're now saying driven by data. So, that works well, and there we see a margin increase.

**<Q - Matthew Lloyd>**: Okay. Thank you very much.

# Operator

**<A>**: Okay. I was just been informed that apparently the slides didn't match with what we were talking about, but I hope you've got the general message at the end. But my apologies for that. We have one more question?

# Operator

We have a follow-up question from the line of Konrad Zomer from ABN AMRO. Please go ahead your line is open.

**<Q - Konrad Zomer>**: Hi. Thanks again. Firstly on CICE, I think that Manpower also talked about it last week in their Q1 results statement. The potential impact on your gross profit is – could be very significant if the change is bigger than what people expect at the moment. If the CICE contribution generates about €100 million a year on an EBITA for about €1 billion then that's quite a significant amount of money. When changes will be applied as from 2019 onwards, will you find out at a very early stage because maybe François is having talks with the French government or how are you being notified on these changes because I think it probably deserves a slightly bigger part of this conference call because it's such a big proportion of your profits?

**<Q - Konrad Zomer>**: And the second question is for Henry. You've been in Randstad's, let's say, engine room for maybe about six months now, and I'm sure it's all great because the company is doing really well, but if you could highlight maybe one thing that you would think requires a bit of change or a bit of your input or I wouldn't say it's disappointing to you but if there's something that is likely to change because of your input to the company could you maybe share that with us please?

**<A - Jacques W. van den Broek>**: Konrad, I'll do the French one first. Of course, once we know what goes on, I think we'll spend time on it. First of all, we've had many discussions when CICE came into play. If it was to be competed away and what Randstad we do. You've seen us quite consistent on, well, not sharing a large part here because it legally belongs to us and it's a commercial thing. Once the system changes, we'll inform you and we'll also inform you on how we're going to deal with it commercially which, yeah, we've got nothing to talk about currently. So, therefore, it's not really a good moment to spend more time on it but, yeah, we are quite confident that we will be informed as soon as soon as possible. And then, well, when we know more, you will know more.

**<Q - Konrad Zomer>**: Okay.

**<A - Henry Schirmer>**: Konrad, on the second one, thanks for your question. So, I'm in week four. So, I've started April 1 in my new role. So, I hope you understand that I will not comment on that yet, but I'm very much looking forward meeting you all in person. And a couple of months down the road, I'm sure we'll have a few observations to make.

**<Q - Konrad Zomer>**: All right. Okay. Thank you.

## Operator

This now concludes our conference call. Thank you, all, for attending. You may now disconnect your lines.