



Q2 Results 2016

Tuesday, 26th July 2016

Robert Jan van de Kraats, CFO Randstad

Thank you. Good morning, ladies and gentlemen. Welcome to the Q2 2016 results call. I'm here together with Jacques van den Broek and our other colleagues of the executive board, and with Arun Rambocus and some other staff supporting us.

We're going to discuss the Q2 results. Q2, a quarter which was the 11th quarter with mid- or low-single-digit growth, which is rather atypical if one looks at it in a bigger perspective. It feels like being in a hovercraft over the water for quite a while now. It's also a quarter where we've seen significant volatility in our stock price and traditionally that volatility has been much higher than the one we see in EBITA. And if one looks at our cash flow, it's even less volatility. I'll take you through the presentation, and at the end, we'll move to Q&A.

Moving to slide five right away, which shows some of the details underlying our second quarter results with solid incremental conversions. So, conversions from additional gross profit into EBITA. Revenues are up by 3% per working day and please note that our second quarter is seasonally typically the better quarter compared to Q1. Typically, the third quarter is the best of the year. And also, typically, Q4 is somewhere in between Q3 and Q2. So, that would normally be the rhythm. Also, please note that the comparables in Q2 are 1.1% better than they were in the previous quarter. So, some impact from the comparables.

Across the board, we have seen growth in Europe, and quite some countries, we'll get back to that. North America has been flat, so at 0%, and the rest of the world came in with 4% growth. If we look at the American market, look at the BLS data in the month of May, and it explains most of the development there.

Gross margin was up 20 basis points. Please note that we have been a little lucky in rounding it here. So, this is an expression at the high end of what happened here. Underlying EBITA improved to €240 million. Foreign exchange had hardly any impact on the results.

Here is the ICR for the last four quarters at 53%, the quarter itself at 50%, so that because we have a hard time assessing the world economy, as many of you will also have. So, we respond to actual data every week in our branches, in our offices, and then we aim at converting 50% of the additional gross profit into EBITA. And of course, we aim at beating the markets be it in revenues or in profitability.

Adjusted net income improved to €71 million where the group's return on the invested capital at 18% now. DSO improved again, 50.7 days, and please note that one day makes a difference of roughly €70 million. So, it justifies our attention here. If you go back a couple of years, then this was in the high-50s, and now we have arrived at the year level of low-50s.

Leverage ratio of 0.7 now. This is always the highest quarter in terms of leverage ratio, and in terms of net debt, typically, if the circumstances remain equal. In Q2, dividend was paid, but also holiday allowances in the Netherlands and Belgium typically pushed up the net debt level.

EBITA margin now, over the last four quarters, 4.6% and we've been rather busy in the acquisition space. Of course, organic growth is our priority. But strategically, we do add acquisitions to strengthen our position. We have absorbed, in the first quarter, an acquisition in the Nordics of Proffice, which was then included for two months. Now it's included for the full quarter.

We also have closed acquisitions in Italy of Obiettivo Lavoro and in Japan, Careo; and twago and these are going to come in the third quarter as from the 1st of July. We have announced some additional M&A, which relates to Ausy, a French-based player, which operates internationally. If you add it all up, the acquisitions that have been closed now and the one in the pipeline, then it adds up to €1.5 billion.

The last four quarters on slide six, we have seen stable mid-single-digit growth like we have seen in quite a few quarters before that, in total, 11 now. And this shows the P&L, the €240 million with an incremental conversion ratio, underlying of 53%.

Gross margin was up over the last four quarters by 10 basis points. And our perm growth for this quarter 11%, but for the last four quarters, it stood at 9%. And the controlled growth of operating expenses by 3% organically resulted in this excellent incremental conversion.

Slide seven, you can see the regional split of our growth. Europe grew 4%, which compares to 6% in Q1, and I'll get back to the various countries, but most of the growth we see in the segment with manufacturing, automotive, logistics. North America was flat at 0% compared to 3% in Q1. Rest of the world 4% and the group grew 3%.

North America on slide eight, stable revenue, but record profitability we note. Revenue stable, gross profit as well. Perm fees shows very limited growth. U.S. Staffing and Inhouse came in at revenue growth 1%, compared to the 6% in the previous quarter. And we remain to work hard to improve our revenue growth in the Professionals space. Sourceright clearly improving, spend under management up now by 33%.

Canada, a difficult market, but we remain ahead of this challenging market by recording 2% growth. Again, EBITA margin 6%. If you look at the slide, the right upper corner slide, it shows you the trend. If we look at the month of July, we see a continuation in our volumes on the first two weeks of what we did see across the second quarter.

Slide nine, the Netherlands. Good underlying growth, but still suffering from the decline in the payrolling business. Revenue at 3%, now, the loss of the government, the payrolling business we have discussed extensively in the Q1 call, it should start to fade out gradually as from Q3, but it will take a while before it's completely absorbed in the comparables.

Perm is doing quite well, up by 18%. And our combined Staffing and Inhouse businesses do show growth if one excludes the payrolling business of 8%. Our Professionals business also back again to double-digit growth at 11%. EBITA margin now at 5.5% and we continue to work on our plans as discussed last time to bring us back in the 6% to 7% zone.

France, growth impacted by strikes, especially in the distribution business, but a strong return at 5.9%. Revenue up by 4% now. Professionals growing nicely at 10%. And perm, please note that 37% growth. For the sake of profitability, we again have decided to reject certain opportunities, because we felt these would not add value.

Germany on slide 11. Improving growth and profitability. It's nice to see our SME business now outgrowing our large clients. I would say this is a direct result of tight activity-based field steering and it comes through nicely. The 5% growth that we see is mostly volume growth. So, that is, I would say, confirming the fact that this is rather solid. EBITA margin now at 5%. That's the result of group operational leverage.

Belgium, further improvement in profitability to 6.3%. I would say that's a pretty attractive level. Revenue now minus 2%. This is the Staffing and Inhouse business. We suffered somewhat from the situation at the Brussels Airport, because we have significant business in that space. Gross profit improved by 4% which is the result of a strong focus on client profitability. The gap with market in terms of revenues was reduced somewhat.

Iberia, improving margins while continued growth 5% now. In Spain, it's clearly a challenge. Our customer profitability and credit worthiness of our clients is leading our selection here. Professionals growth and gross profit was up by 13% and the perm growth was 42%. Like in other countries, the result of a very specific strategy.

Also our Portuguese business improved by 5%, especially the gross profit has improved, also customer profitability being a key focus in this market.

The UK, Brexit impact limited so far. Of course, this was late Q2. It's rather difficult to identify any direct impact. At best, we have some anecdotal conversations or evidence with certain clients. There's nothing really significant so far.

Revenues at zero compared to 1% in the previous quarter, but our EBITA margin has improved to 3%. Please note that this is a rather specific market. We also discussed earlier today the fact that in the UK, we have twice as many staffing operators in the market than in the U.S., whereas that market has five to six times as many people living in it.

So, clearly a fragmented market with quite some competitive pressure. Our business in the UK has been adjusted over the last couple of years, less exposure to the manufacturing segment. Good exposure, for example, also to education and care. On the whole, the impact of the UK to the Randstad Group is less than 4% of revenues and 2% of profits.

In some other European countries, we do see continued growth in these markets, especially in Italy. We've been busy with acquiring, but at the same time, we've been very busy in expanding our business organically and I would say, successfully. Also in the perm and specialty space, we do see interesting growth.

Switzerland, has come from a low point, last year. Q1 already 5% growth and now back at 10% in the second quarter. Poland also a good indicator, growth at 13% now. And in the Nordics, we do see good work on the integration. It's well on track. And our Finnish business which came with the acquisition has been transferred to a

Finnish player with whom we have now entered into an exclusive partnership to serve our clients in the Finnish market.

EBITA margin improved in this space to 3.9%. So, across Europe, we do see good growth in most of the markets. Rest of the world also mid-single-digit growth at 4%. Japan improved to 4% with excellent growth in the perm space, 65%. It shows what an opportunity it is, and how it works out if you focus on it.

Australia, New Zealand, 4% growth now, but more importantly, the perm space showed growth of 26%. Overall in Asia, we did see 4% growth. Latin America up by 6% with a focus on profitability here, which you see in the final bullet, 1.9% EBITA coming out of it now.

Moving to slide 18, the P&L, which effectively puts it all together. So all items have been addressed now, integration costs and one-offs related to some M&A and restructuring relatively limited. The rest is rather standard.

So, moving to slide 19, while we have the performance by segment. Finally, Professionals in the lead here with 5.8% return as it should be.

In Staffing, we led by a focus on customer profitability here and that very often results in changing delivery models be it Inhouse or central delivery now coming in at 4.8% EBITA margin. Inhouse, we continue to see transfers of clients from Staffing, also to Inhouse here to ensure the right delivery model is offered, and an excellent return at 5.2%, I would say. And Professionals, good focus on IT, finance, and accounting, and engineering paying off here.

Gross margin bridge to explain the jump from 18.7% to 18.9%. At the beginning, I already elaborated on the fact that this is also a rounding, but this effectively puts it all together what we have said before. The temp business mix helping us here. M&A profit is being added with a slightly higher gross margin. The perm business, 11% now, which is, it's now just north of 11% of gross profit and just north of 2% of revenue, so expanding nicely. And then, in the HRS box, you see the impact of the payrolling business.

Comparing our OpEx sequentially. so, from Q1 to Q2, some changes FX slightly because almost the same at the gross profit levels or EBITA, it was only an impact of roughly €1 million negative. M&A is the addition of profits mostly. This is three months rather than two months included now. Marketing, the typical seasonal pattern. We spend more always in marketing in Q2, because business volumes are higher than we do in Q1. And then, growth-related investments in people, in the field organizations in the EU.

Moving to the balance sheet of Randstad, net debt is at €634 million, with a leverage ratio of 0.7. If you look at operating working capital here, it reflects growth. Net tax assets are lower. That's partly explained by the opening position last year, some specific issues. And it has reduced mostly because of the fact that we have used the American net operating losses.

I mentioned already, the solid working capital at 4%. This is the high point throughout the year. They'll reduce to 3% again. And the return on invested capital, almost 18%. Our free cash flow is rather standard. Again, investments in operating working capital. This is typically a negative quarter due to the fact that the dividend is paid, so nothing further out of the ordinary.

Moving to the outlook for the full year on slide 24. Organic revenue growth was 3% in Q2. In June, revenue grew by 2%. And the volumes in early July indicate a continuation of the Q2 growth rate. If I want to share now an indication of the June exit rates with you, in the Netherlands, came out at low-single-digits. France, mid-single-digits. In Germany, mid-single-digits. In Belgium, it was down low-single-digits. In the UK, it was close to flat. Iberia, mid-single-digits. North America, flat. Rest of Europe, high-single-digits. And the rest of the world, mid-single-digits. So, that's on the exit rate.

We do anticipate the Q3 operating expenses to remain more or less stable sequentially on an organic growth basis. And this should be typical to the trend that we see in the month of July in our volumes.

As of Q3, the acquisitions of the Italian company of Obiettivo Lavoro and Careo in Japan will be added, so that should be included in your spreadsheets. And we do not see a material working day impact for Q3.

So, that concludes, what we believe should be elaborated upon. Now, time for Q&A. Operator, up to you.

Q&A

Operator

Next question is from Nicholas de la Grense from Bank of America Merrill Lynch. Nicholas, please go ahead.

<Q - Nicholas de la Grense>: Morning, guys. Just one quick follow-on from the exit rate comments you just gave and then a couple on M&A. So, obviously, the June exit rate was a bit weaker than the volume trends in July. Are there any

– and you've just given us the June exit rates presumably by region. Were there any regions where there was a big difference between the exit rate and July that we should be aware of?

And then, the other question is on M&A. Obviously, it's been a very active six months to nine months. Can you talk about what the pipeline now looks like and whether the recent market sell-off is actually helping or hindering progress there?

And then, I wonder if you could elaborate a bit on the recent Ausy acquisition, particularly in terms of the kind of the bench risk that you're taking on there, because my understanding is that the majority of your contractors there are going to be on your permanent payroll. So, what that means for margin volatility, et cetera? Thank you.

<A - Jacques W. van den Broek>: Okay. Hi. Good morning. Jacques here. So, June was a bit lower and mostly because we saw that in France, many people were not able to get to work in May, but also, to a lesser extent, in June. We estimate this revenue when it turned out in June that in May, people just worked less hours. And so, underlying the trend of France in revenue will be slightly stronger in July than is in June. Second effect was in Belgium where we mentioned the fact that in June – more May than June, but also, the Zaventem Airport opened up more fully for business, so that will help. So, those are the two outliers in June.

On Ausy, yeah, sure. On the one hand, this is a business that has a bench risk. On the other hand, we are working with people which are very hard to find, who have unique capabilities. François and I spent quite some time coming up to this acquisition, meeting with people. So, we're very confident that this will be a very strong business for us where the risk is more how we find more people to do the work than the bench risk as such, which is the name of the game. If you look at the earnings of this company, they are very able to manage this bench risk.

<A - Robert Jan van de Kraats>: On the pipeline for M&A and the process of Ausy, we're now going through the formal approval steps with Ausy that takes time and that will result in the process taking a couple of months to finalize. So, we'll see how that goes. On the rest of the pipeline, we've done quite a few transactions, but it doesn't mean that we'll continue this rhythm. We are looking at strategic additions that are relevant to the company. I would say the limitation that we clearly set ourselves is leveraging of the balance sheet up to two times EBITDA. And I would say size should remain small to mid-size. Nothing sort of earth moving in terms of size.

<Q - Nicholas de la Grense>: Just a clarification on the balance sheet point. Does the kind of the deteriorating macro make you slightly more cautious than you would otherwise be in terms of taking leverage up to two times or you're not concerned about that at this stage?

<A - Robert Jan van de Kraats>: Well, that's an interesting point which, of course, we elaborate on ourselves and also in the board. We have gone through severe testing in the past and we built in a lot of flexibility. You might remember our capability to use our cost by 30% in six quarters in 2009. So, we really have the whole toolkit available. So, we've tested ourselves against various scenarios and we do not see any scenario which will bring us into any sort of sensitive zone.

Our agreements with the banks allow us to go up to 3.5 times and following significant acquisition we have even hit off to 4.25 times. So we are rather comfortable with all the scenarios that we have looked at. And given the experience of 2009, we've looked at serious scenarios, I tell you.

<Q - Nicholas de la Grense>: Okay. Thank you very much.

Operator

Our next question is from Chris Gallagher from JPMorgan. Chris, please go ahead.

<Q - Christopher Charles Gallagher>: Hello. Good morning. A little bit on North America. You've seen Staffing slow there. Is there any sectors or regions, specifically? And if you strip out Sourceright where MSP was up a lot, how does that change that number?

<A - Linda Galipeau>: Yeah. We...

<A - Robert Jan van de Kraats>: Linda, coming in.

<A - Linda Galipeau>: Yeah. Hi. Good morning. This is Linda. In terms of the sectors, what we've seen, slowdowns. Our RIS business is growing well above market. I think they're still above market. But we have seen the volumes moderate quite a bit. It seems to be stable. April was very strong. May and June were a little softer. July, it's too early to tell, but the volumes seem – certainly not to be deteriorating, but certainly it is – the blue-collar sector in RIS that, where the growth levels have been much more moderate than they have been over the past few years.

In terms of Sourceright, yes, our MSP business is way up. Our payrolling business is also doing well. Our RPO business is having a bit of a tough year. This is largely related to a couple of large customers. So it's not an overall weakness or loss of new program wins and the underlying business remains very strong. But we have a couple of large clients whose volumes are quite down this year and that is causing some pressure in the RPO revenue volumes.

<A - Jacques W. van den Broek>: Yeah. So, maybe as an add-on to the MSP business, the fact that the spend on the management is up 33%, it's mostly due to new wins, not as much to do with the market as such. We just managed more programs than we had last year the same time.

<Q - Christopher Charles Gallagher>: Okay. Thank you. How do you think then your competitive environment in terms RPO? One of your competitors spoke about quite successful period in Q2 in terms of wins in RPO? So, do you think you have a better offering in MSP or RPO or is it just simply a movement in a very short period of time and difficult to read much from?

<A - Linda Galipeau>: Yeah. No, I mean, I would say we've had a tremendous win season. So, we had lots of wins in RPO and in MSP, and again, the RPO number is really related to a real tough comparable in two large customers last year, so it's not reflective at all of the health of the business and certainly wins remains strong probably at their highest levels ever, I would say.

<Q - Christopher Charles Gallagher>: Right .

<A - Robert Jan van de Kraats>: I'm using them – sorry, I just want to ask you, can you just limit yourself to two questions to make sure that we address everybody's questions?

<Q - Christopher Charles Gallagher>:). Okay. Thank you

<A - Robert Jan van de Kraats>: And just adding one comment on the M&A. I don't anticipate that the balance sheet will be leveraged up to two times EBITDA at the end of the year. That's not the speed we do anticipate and just to give you a little sort of more clarity here, the size of the acquisition of Ausy, I would say, is sort of the higher end of the range. So, mid-size to small that means €100 million or so. You've seen the Japanese acquisition , so I would say, sort of €0.5 billion, in that space and then, we do not expect to see the balance sheet leverage fully to the level of 2.0 times at the end of the year. Just to give you some guidance here. Please continue the Q&A.

Operator

Our next question is from Toby Reeks from Morgan Stanley. Toby, please go ahead.

<Q - Toby W. Reeks>: Morning, guys. Two if I may. The first is on your expectations for Q3 SG&A, which is expected to be sequentially stable on an organic basis, usually wouldn't we, from a seasonal perspective, expect it to fall sequentially?

And then, the second one is on the U.S., you've been outperforming in the U.S. due to the Inhouse business. You're now tracking below the market. Inhouse has slowed from 6% to 1%. What's the outlook there just around the Inhouse business in the U.S. please? Thank you.

<A - Robert Jan van de Kraats>: The typical pattern from Q2 to Q3 is that Q3 is the stronger quarter. And typically that goes with slightly higher expenses. But given the current development that we have discussed, we anticipate it to be close to flat. And by the way, let me also address the M&A side of it. Adding the companies as from the 1 of July means that we do anticipate to see our cost base going up by roughly €15 million for the quarter related to those acquisitions.

<Q - Toby W. Reeks>: With €15 million?

<A - Robert Jan van de Kraats>: Yeah. 1-5. Correct.

<Q - Toby W. Reeks>: Okay.

<A - Linda Galipeau>: Yeah. On the U.S., I'm not sure I understand the characterization of below the market. I think we are in line just slightly ahead again. We have to see how our like-for-like competitors come out. But based on reports so far, I don't think that's how we see it.

What's very interesting is the Inhouse business and our general Staffing, again, very strong comparables. It is definitely still above market. It's just not as far above market as it is. Where we see the pressure is in our branch business. So, our traditional local branch business, particularly in the O&A sector where there's very little structural growth, if anything it's going a little bit the other way, so that's our white-collar clerical business. And that's probably where we see the most pressure.

On the Professional side, we do see good growth in our Inhouse for Professional business which is very interesting. So, the types of skills that we are servicing through Inhouse is broadening. And we do see quite good demand there and demand that remains very healthy.

<Q - Toby W. Reeks>: Okay. Thanks, guys.

Operator

We have a question from Tom Sykes from Deutsche Bank. Tom, please go ahead.

<Q - Thomas Richard Sykes>: Thank you. Morning, everybody. Just on Belgium. Would you be able to just say perhaps excluding what unfortunately happened in the attacks what happened to the industrial business in Belgium, please? And then, could you maybe give us an update on the Netherlands as to when you – what's actually happening to the gross profit cost? When you take the effect of the payrolling business will be less pronounced at the EBIT level, please?

<A - Robert Jan van de Kraats>: Yeah. On Belgium, the effects have not had any material effect on the blue-collar business as such. What we do see is we're quite picky on the business we get. As in any market, but also in Belgium, it's quite easy to grow through low-margin blue-collar business, but if it's really just a procurement play then we normally don't play. So, that has effect.

As such, the Belgium market is still in good shape. We're still slightly below that market, that you see in our – both the development. But at the same time, we also think that our Belgium business can still grow a bit faster in SME as we see in France, as we see in the Netherlands, as we see in Germany. So, we're very happy with our Belgium business. In general, we're not so happy with their commercial performance in the SME space. So, that's one thing we're still working on. The market, as such, we think is quite good.

The Dutch market, well, the payroll business plays on two elements, both top-line, which we'll weed out over this year. But, yeah, and also – the leverage in this business is quite high. So, we are growing against the curve. We were very strong in the government business in payrolling and we're now growing into the private sector. So, we do expect this business when the comparison weeds out into 2017 to be a growing business again. But smaller in the total portfolio. So, that will still have a dampening effect on our overall profitability in the Dutch business. So, it is something we need to deal with. For example, by growing our perm faster, which 18% growth in this quarter definitely helps and we see a lot of upside potential there, for example. We'll probably update you as we've done last year, more elaborately on our important markets in the Capital Markets Day, but we'll keep you abreast of things.

<Q - Thomas Richard Sykes>: Okay. But when you consider that you're growing against the curve, as you say, in the private sector, your Professionals is doing quite well. Your overall top-lines, obviously, going up, you seem to be getting a little bit worth leverage now than before in the Netherlands. Is pricing incrementally – how would you characterize the pricing market there?

<A - Jacques W. van den Broek>: Yeah. Pricing, Thomas, as we said, it's tighter. We've seen, let me call it very creative pricing from USD, presenting itself as – so, we bought company last year and it's quite evident in their margin and results development. Let's hope that the Japanese owners don't like that, given the price that they paid. Probably the money still needs to come out. So, we're happy that they will see that.

We see, for example, the European Commission being bought at a very low margin coming back to us in Belgium, might be an early sign. But all in all, we do see, yeah, if you look back to 2008 to 2009, and you've been also looking at this sector for a long time, there is commodity in margins, commoditization in margins which we offset with our delivery models, as Chris presented last time. So, there is this shift. Yeah, but we're confident, as we mentioned before, that we can still get good and above group average profitability in our Dutch business.

<Q - Thomas Richard Sykes>: Okay. Thanks. Jacques. Thank you.

<A - Jacques W. van den Broek>: Okay.

Operator

Our next question is from Paul Sullivan from Barclays. Paul, please, go ahead. We've got George Gregory from Exane. George, please go ahead.

<Q - George Gregory>: Good morning. I wondered if you could maybe just clarify a few points on the deals. So, firstly, the date of consolidation of both Lavoro and Careo. And also, perhaps you could provide us with some high level numbers of Careo, please. Thanks.

<A - Robert Jan van de Kraats>: Well, I mentioned it before, consolidation as from the 1 of July. Revenues together, roughly close to €500 million and just note the €400 million is the Italian acquisition and profitability of the combined businesses, I would say, just below the group average for now, but with a potential to clearly improve. That's why we were very enthusiastic about these deals.

<Q - George Gregory>: Okay. And just to clarify on Lavoro. You said around €400 million. I think Lavoro did €436 million last year. Is that down or was that just the rounding?

<A - Chris Heutink>: Lavoro is in a growing market now a bit flat, although the Italian market is also not as exponential as it was. Although we have ramped up to grow in May of 70%, so we are clearly outperforming the market. But you will see a bit less of revenue, because we will divest a few of the foreign activities of Obiettivo Lavoro. So, it will not be the €400 million, it will be a bit less because of this divestment .

<Q - George Gregory>: Okay. And sorry, just to your points on the profitability, I missed that point.

<A - Robert Jan van de Kraats>: This was Chris by the way. He is responsible for the Italian business and the combination that's exactly where we see part of the synergies is that our track record in growth will support the expansion of this the newly-acquired business. That's the ambition. And in terms of profitability, I made the point that the acquisitions together come in just below the average of the group profitability with the potential to clearly catch up.

<A - Jacques W. van den Broek>: And just to give you a bit of meat on those bones, we acquired into 2013 , you will see which was roughly 20% more in the Italian market. It came in at 1% operating profit or less. Look at our Italian business today. So, there's a lot of synergies, head office, branches, that sort of thing. You shouldn't expect anything this year. So, we will start, well, recalibrating both businesses as of beginning of 2017.

<Q - George Gregory>: Okay. Thank you.

Operator

Our next question is from Marc Zwartsenburg from ING. Marc, please go ahead.

<Q - Marc Zwartsenburg>: Hello. Thank you. Good morning, all. Two questions from my side. First of all, could you give an indication on the comparison base with July, August, September last year, because my feeling is that the comps are getting a bit easier. And also maybe, Linda, can you give a bit of an indication how your blue-collar or Inhouse is trending into July? Do you see there some stabilization bottoming? Any feel for that will be great.

And then the second one, since the M&A pipeline is more small-size to mid-size acquisitions generating quite some cash, is it already a topic in the boards, and could you perhaps give a bit more flavor on what you would do if in case the market goes down to, say, a mid-single-digit decline and that your EPS goes down to less than last year. Would it then be logical to assume that maybe on the dividends, you might provide some support and keep it at least steady versus last year as a sort of floor, is that anywhere in the cards for next year? I know it's early, but if you have any flavor on that, that will be great?

<A - Robert Jan van de Kraats>: You're always early, Marc. We have – I'll take that question and the one on the Q2 or Q3. We have a dividend policy, which describes that up to 2.0 times EBITA, we have a policy that pays out cash with an option to take stock. If we get north of that, we'll promote stock. And if we get north of 2.5 times, it'll be stock. That's the policy we have. And within that policy, we'll make choices.

Last year – on the dividend over last year, we decided that given the very low leverage ratio, it should just be cash, but I think the policy sets the sort of the framework for a good decision going forward. So, most likely, with circumstances as they are now and trends as they are now, we'll be clearly below 2.0 times EBITA. And that will bring us to the standard policy, which is cash as a default optional stock dividend.

Your question on Q3. Q3 last year showed growth, which was slightly lower again. So, Q2 was a peak last year compared to Q1. It went up and now Q3 last year was lower again by just a bit more than 1%. And throughout the quarter, last year was kind of stable at the same level.

<A - Linda Galipeau>: On the U.S., Marc, the Randstad Inhouse business is off to a pretty good start, actually going into July. It's a bit of a tricky comparable, though, because of the movement of July 4th. So we have two weeks and again the numbers make us quite hopeful, but with the July 4th, there makes it quite tricky.

The other thing that I know about the U.S. is, I would say we are at the most challenging recruiting market we've seen in a long time. So there's a demand side which remains still quite good, but a supply side where we're definitely working to up our recruiting gains, because I would say that we undersupply.

<Q - Marc Zwartsenburg>: But given the strong BLS data in June and your company status in July, it seems that things are getting at least not worse. But now I see that the Asia and the Americas at the data and then the other, now that one is trending the other direction. So, how would you read that?

<A - Linda Galipeau>: Yeah. I know the data is a bit schizophrenic. I think if you add it all up, it comes out looking a lot like our numbers. So, looking pretty flat. Yeah. I mean, because it's sort of all over the place, right now, but we read it from a flat level.

<Q - Marc Zwartsenburg>: Okay.

<A - Jacques W. van den Broek>: So, maybe to elaborate a bit on what Linda was saying, this is the – call it negative effect of a positive market. So, because of the relative scarcity in profiles, people are tough to find. We do see a tendency that clients hire people quicker. So that means that our order duration goes down a bit. So that has – we need to work harder to keep up the volume growth. So, that's an interesting one.

<A - Robert Jan van de Kraats>: And the perm business remains fantastic .

<A - Jacques W. van den Broek>: Yeah. Sure.

<Q - Marc Zwartsenburg>: Okay. Thank you very much.

<A - Jacques W. van den Broek>: Thank you.

Operator

Our next question is from Denis Moreau from UBS. Denis, please go ahead.

<Q - Denis Moreau>: Yes, good morning, everybody. Denis Moreau, UBS. My first question relates to France and to more specifically, the automotive market. I'd like to know how big is this market to you, and if you see any signs of decline at this stage. Peugeot has mentioned, some reduction in their production plants from September, so I'd like to know if you see any impact of that now?

And my second question relates to the acquisition of Ausy. I'm aware that you can't say much given it's a bit underway, but M&A has been a critical component of the strategy of this company. And so, I'd like to know how much capital you plan to allocate for this company for its own M&A action? Or do you expect them to grow faster than in the past on the M&A side or at the same pace, some color on that could be helpful?

<A - Jacques W. van den Broek>: Okay. Now, first of all, on automotive, it's an important sector, probably 10% to 15% of sales. Yeah, Peugeot has announced that they will have – they will close their plants for two or three days, I think. Good news for us is that Peugeot isn't our client.

<Q - Denis Moreau>: Yeah.

<A - Jacques W. van den Broek>: Well, sometimes you got good news when you don't have a client, and they're not really in the high margin to put it mildly. But anyway, apart from that, definitely Ausy, as you've seen, has been acquiring companies, which we do think is a part of their DNA, which we find attractive, certainly because these businesses are businesses which are in what they do, their core business is a bit new to us.

So, we will definitely allocate opportunities to them to buy. Having said that, we will first concentrate on organic growth for Ausy, because as a company – a mid-size company, they needed to do two things. So, they both invested and also needed to pay it out of their own cash flow and growth. So that's tough to balance. So, for us, first, organic growth, and then afterwards we'll concentrate on acquisitions again, but we're probably talking full 2017 to make this change. So, this is a bit early to say and then honestly speaking, we will not of course diverge externally the kind of money we would give them. They would just be looking for good deals and then come to us and then once we do a deal, we'll inform you.

<A - Robert Jan van de Kraats>: And we'll add this same financial discipline as we do for any other deal.

<A - Jacques W. van den Broek>: Absolutely.

<Q - Denis Moreau>: Okay. Thank you.

Operator

Our next question is from Konrad Zomer from ABN AMRO. Konrad, please go ahead.

<Q - Konrad Zomer>: Hi. Good morning. I have a question on your Professionals business, which I think delivered a very strong performance in the second quarter. Could you rank for us what countries had the biggest contribution to your overall 100-basis point margin improvement in the second quarter, please?

<A - Jacques W. van den Broek>: Well, a pretty strong business was certainly France. So, in France, our business grew a lot there. So, our medical business grew a lot certainly in perm, but also our business delivered a very good performance. Our Dutch business also quite solid. You see the turn in perm. The turn in perm in our Professionals business in the Netherlands which helped. And in general we do see our European business. We put our businesses – our European Professionals business together and what we call a community that definitely helps to talk about where to grow, how to grow. So, we do see some early signs of improvement here. We're very happy and thank you for the compliment, Konrad.

<Q - Konrad Zomer>: Okay. My pleasure. The second question is on the Professionals business by segment. Can you tell us about the Dutch market in particular. What happened in your engineering business, in your IT business, and your finance and accounting business just in terms of growth and margin development?

<A - Chris Heutink>: Yeah, I will give you – this is Chris, by the way, Konrad, if you look at engineering, it's more or less, a kind of a flat market. We are a bit below. There's also something to do with our comparables. Finance is probably, for us, in Q2, plus 5% market, more or less, our results or performance. The market is also growing, probably at the same pace or a bit higher.

When you look at the ICT, which is the biggest growing market and vertical, we are growing at 25% where the market is, well, close to 20%. And there's another vertical which is exponentially growing, that's the legal and the social domain sector, where there's a shift, of course, from central government to the local government in the Netherlands, and we see a lot of growth there, also a high-double digit.

<Q - **Konrad Zomer**>: Okay. Thank you very much.

Operator

Our next question is from Rajesh Kumar from HSBC. Rajesh, please go ahead.

<Q - **Rajesh Kumar**>: Hi. Good morning. Just following up on your commentary on North America earlier. You said people are getting a bit more tougher to find. Have you seen any impact on the gross margin as a result of that?

<A - **Linda Galipeau**>: Where you see actual wage pressure, which is where the gross margin would be impacted, it's certainly in the blue collar sector. We have seen some wage inflation of blue collar sector, but we have also instituted kind of parallel price increases. So, we are not seeing any margin erosion as of yet, nor we're seeing any great margin expansion. So, I would say that we are making sure that bill rates and pay rates fluctuate in a mirrored way, I would say.

<Q - **Rajesh Kumar**>: Yeah.

<Q - **Rajesh Kumar**>: So, that's almost counter in Q2. If it is more difficult to find people, and you are a staffing company, you should be charging higher prices, why would anyone expect price erosion?

<A - **Linda Galipeau**>: No. I think I'm going to hire you to go talk to many of our customers, because I think that's a very helpful point of view from the one we share. And yeah, I know, you make a very good point.

<Q - **Rajesh Kumar**>: Okay. And just a follow-up. For September, could you just give us some color on the shift patterns, what we know as of now?

<A - **Jacques W. van den Broek**>: For September?

<Q - **Rajesh Kumar**>: Yeah. I mean you would have some indications from your client what shift patterns they are looking to put in place?

<A - **Jacques W. van den Broek**>: Someone told me once, if you listen to your clients – if you don't listen to your clients, you go bankrupt, if you listen to your clients also. So, they are in the same uncertain environment that we are and planning for September is very early days. It's the end of July. September is always a reset. So, no, there's no comments here. Our visibility is fairly limited. It is normally certainly in this time of year and also in these environments. Sorry, no follow-up for September.

<A - **Robert Jan van de Kraats**>: And we have organized for this, so we don't really have to think about it too long because we respond to actual data that we get every week. So that, with our flexible structure, that allows us to get the most out of it rather than plan well in advance for this.

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

<A - **Jacques W. van den Broek**>: Because we probably will be a wrong planning.

<Q - **Rajesh Kumar**>: Okay. Understood. Thanks.

Operator

Our next question is from Suhasini Varanasi from Goldman Sachs. Suhasini, please go ahead.

<Q - **Suhasini Varanasi**>: Hi. Thank you. One question, it's on Netherlands, please. You mentioned that you expect payroll impact to actually fade out slowly from Q3, but if I'm right, the impact started in Q1, and probably annualized in Q4? So, are you may be getting some positive benefit from somewhere else, which is why you're seeing the fading out? And perhaps can you remind us what was the actual impact from payroll in Q2? I think, in Q1, you mentioned it was a 7% impact to Staffing and Inhouse? Thank you.

<A - **Robert Jan van de Kraats**>: Well, Chris is looking at some details, but before he does that, my remark was that it gradually will fade out as from Q3 onwards.

<A - **Chris Heutink**>: So, to remind you, it started in the second half.

<Q - **Suhasini Varanasi**>: Of last year, okay.

<A - **Chris Heutink**>: It started actually in the end of – in the third quarter, sorry, of 2015. We will see it all over the year, because we mentioned in Q1 already that it will be an impact of more than €100 million in terms of revenue...

<Q - **Suhasini Varanasi**>: Yeah.

<A - **Chris Heutink**>: ...with high leverage on EBITA. So, that's I think you will see the effects still in 2016 of course in 2017 it will change in terms of comparables. We do see what Jacques was mentioning that we are getting some new contracts in the more private sector, but this is not offsetting for sure not this year, the decline in the public one.

<Q - **Suhasini Varanasi**>: Thanks. And perhaps just one follow-up. Could you remind us what the impact was from common payroll in Q3-Q4 last year?

<A - **Chris Heutink**>: I don't have it here right now.

<A - **Robert Jan van de Kraats**>: The total...

<Q - **Suhasini Varanasi**>: Okay. We can follow it up later.

Operator

Our next question is from Paul Sullivan from Barclays. Paul, please go ahead.

<Q - **Paul D. Sullivan**>: Hello. Can you hear me now? Hi.

<A - **Jacques W. van den Broek**>: Yeah.

<Q - **Paul D. Sullivan**>: Good morning, everyone.

<A - **Jacques W. van den Broek**>: Good morning.

<Q - **Paul D. Sullivan**>: Just a very quick follow-up on the acquisition contributions. I mean, profitability overall is broadly in line from the stuff you're going to consolidate in Q3. Does the same go for gross margin? Do you anticipate any sort of gross margin impact from M&A in the third quarter?

And then just on Germany, maybe you can provide a little bit more color on what's driving the good growth there. And I'm interested to know whether you're starting to see any benefit from the migrant inflows starting to see in the country over the last six months to nine months?

<A - **Jacques W. van den Broek**>: On the M&A, the acquisition I mentioned that before, it's going to come in with somewhat below average profitability, so relative to the group returns, but with a potential to catch up. I would say at the gross margin level, the Japanese business is sort of – is clearly in the highest segment, as a result of which it comes in with higher gross margin. The Italian business with some lower gross margin. So, the biggest part of it comes in with a slightly lower gross margin. And again, it's adding €5 million to the cost base in Q3. What was the other question was?

<A - **Robert Jan van de Kraats**>: Germany?

<A - **Jacques W. van den Broek**>: Germany? Yeah. Germany, as Robert Jan alluded to, we now see and that's – yeah. I think if ever, the first time that SME is really seriously outgrowing larger clients. By the way, you should take into account that SME is then the German, how do you call it, abbreviation. So, this is meaning small companies. Historically, we've always been a large client business, like really big international automotives, we are now moving to actually a big sector of the German economy which is really family-owned

company, mid-size companies in local areas which is definitely due to the fact that we upped our sales with 20% to 30% in terms of calls and visits per consultant.

It took us a relatively long time, but of course, it came from nowhere honestly speaking. So, one-and-half years, and we saw a yearly effect second half of last year and is now really coming through. So, that helps a lot. And also Robert Jan said, most of the 5%, the larger part is actually volume development. So, very happy there with our German performance. Inflow of migrants, not really.

<Q - **Paul D. Sullivan**>: Okay. Thank you very much.

<A - **Jacques W. van den Broek**>: Okay.

Operator

Our next question is from Hans Pluijgers from Kepler Cheuvreux. Hans, please go ahead.

<Q - **Hans Pluijgers**>: Thank you, guys. Good morning. A follow-up question on the U.S. I understand the average contract duration coming down somewhat. Again, you get some feeling that where are you far in the cycle with respect to the average duration?

And secondly – so how far are you away from peak and/or trough. And secondly, do you see any necessary structural changes in the average duration of contracts?

<A - **Linda Galipeau**>: Yeah. I'm not sure where your duration question is coming from, I don't think we've seen any duration change.

<A - **Jacques W. van den Broek**>: Yeah. I mentioned the fact that people are getting hired quicker by our clients.

<A - **Linda Galipeau**>: Oh, that's why.

<A - **Jacques W. van den Broek**>: So, our order duration goes down and we need to work harder. We don't work with mathematical models to say where we are in the cycle, Hans. We're at peak penetration in the U.S. as opposed to Europe, which is still 15% below peak. So, we might go into new things we don't know. What you do see is stabilization currently as we mentioned of the growth in U.S. So, that's what we're seeing.

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

Robert Jan van de Kraats

So, operator, I think this was the last question. So, ladies and gentlemen, I want to thank you for participating in this call, and we're going to end it now, and we're looking forward to again see you, or meet you or at least talk to you in the next couple of months, and we'll have the Q3 call planned for the end of October, the 25th of October. Thank you so much. Bye.

Operator

Ladies and gentlemen, this concludes the Randstad second quarter results 2016. Thank you for joining.