

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

Q2 2017 Earnings Call

Company Participants

- Robert Jan van de Kraats
- Jacques W. van den Broek
- David Tailleux

Other Participants

- Thomas Richard Sykes
- Toby W. Reeks
- Marc Zwartsenburg
- David Phillips
- Konrad Zomer
- Andy Grobler
- George Gregory
- Rajesh Kumar

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Randstad Q2 Results 2017 Presentation. My name is, Holly, and I'll be the coordinator for today's conference. During today's presentation, you will have the opportunity to ask a question.

I would now like to hand over to your host, CFO, Robert Jan van de Kraats, to begin today's call. Robert, the line is now yours.

Robert Jan van de Kraats

Thank you. Hi. Good morning, all. Welcome to the discussion on the Q2 results. I'm here together with Jacques van den Broek and David Tailleux, and some others supporting us. I'm going to go through the presentation as regular, and then move to Q&A after that.

Let's move to page 5, slide 5 right away, which summarizes the key items for Q2 and it's very clear that Europe is gaining further momentum through with the acceleration. We've seen organic revenue growth of 9.3% and also pretty good gross profit growth almost 8% up. Top line was accelerating in Europe as I mentioned, more or less stable in North America, and also pretty good in the rest of the world. The gross margin was stable underlying; permanent fees up 7%. Organic OpEx were up 5%, much better in line and ICR as a result of that improving.

The underlying EBITA came out at €262 million, a margin of 4.5%, and please note that this includes an impact of 50 basis points which relates to on the one hand, one working day less, a bit more than one working day less, actually which was a benefit in Q1. It's a disadvantage in Q2, and also in Q3 by the way, we'll miss out on one working day. And then we have 30 basis points impact from digital investments which includes Monster.

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

The leverage ratio of the company, 1.5, impacted by seasonality and also by M&A that we have our digital initiatives in full swing. I will talk more about it. We'll refer to it a bit in this presentation but we'll talk much more about it during our Capital Markets Day in London on November 21.

The volumes in early July indicate a clear continuation of the Q2 trend and the Q2 trend equals roughly the June trend, so that moves into July. All our acquisitions are on track and we have launched some key initiatives at Monster.

So, overall, I would say Q2, we're very satisfied with what happened in the second quarter. And as we closed the call on Q1, we referred to the balancing act which on the one hand our focus on decent operating leverage, so good operational performance aiming at an ICR of around 40% organically on the one hand as I said. And on the other hand, we are making the necessary investments to make the company future-proof through the investments in the digital space.

And those two have to go hand in hand and that is the balancing act. I would want to say that I think the operating leverage is coming through quite nicely now with market share gains and pretty – and in quite some markets. And please note that the working day impact of 20 basis points should be taken into account when calculating this.

We also had quite some good contributions from our mid-sized operating companies across the board. I think that strategically is also a point to know. Slide 6, the P&L of company on which I want to point out again good gross profit growth per working day as well.

And if you look at the gross margin, it is roughly flat compared to Q1 and I'd like to point out here that the growth acceleration in Europe is coming through in countries with a slightly lower gross margin and also in our segment Randstad Inhouse services with a somewhat lower gross margin but, as you know, with a very good return. So, we are pretty happy with these numbers as a result of that. Our perm growth in the second quarter decelerated a bit from the 11% to 7%, but please note that this is a volatile business.

I'm moving to slide 7 which shows you the world, and it also indicates once again that planning in our business is quite a challenge, and that is why we have chosen to respond to actual data, and again, that proves to be the right approach here. We see clearly an acceleration in the European markets, as I said, America flat, but the rest also moving into the right direction.

Slide number 8 which is America, stable top line at 1%. Perm grew by 3%. Our U.S. Staffing and Inhouse business, we did see revenue growth continuing at a level of 2%. In Professionals I'd like to point out that our IT business improved from growth of 1% in Q1 into 2% in the second quarter. We also watch the BLS data. The BLS data are slightly up in Q2, but ASA, the ASA data which is weekly averages only is slightly down. We see – we continue to see, I should say, a limited effect of rate inflation on the gross margin in the U.S. which is absent, by the way, in most other markets.

In the Netherlands, we have a very strong focus, on slide 9. On profitability, given the pricing pressure in the market, our revenue grew by 2% which is better than the first quarter one.

We also are narrowing the gap to market. We see good double-digit growth in SME and in Inhouse Services, but our key focus is on profitability because there are too many unattractive transactions in the market both in terms of pricing and in terms of payment terms.

Our combined Staffing and Inhouse business up by 3%. We did see very good growth in Professionals. Gross profit up by 8% which also results in a clear improvement at the EBITA margin level. And our pricing tool that we are using here to detect scarcity and make sure that we charge the right prices for that scarcity is clearly paying off, and that results in maintaining our EBITA margin at 5.8%.

In France which I think is party time more or less accelerating to double-digit growth from 9% in the first quarter to 14% in this quarter. Staffing and Inhouse, double-digit. Professionals accelerated to 19%. And our perm grew by 43%, which is clearly fueled by the tech solutions that we have put in place. And by the way, we also see tech having impact on the rest of our business, on the growth in the rest of our business.

Company Name: Randstad Holding Nv
 Company Ticker: RAND NA
 Date: 2017-07-25
 Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
 Current PX: 52.33
 YTD Change(\$): +.80
 YTD Change(%): +1.552

Bloomberg Estimates - EPS
 Current Quarter: 1.210
 Current Year: 4.169
 Bloomberg Estimates - Sales
 Current Quarter: 5838.000
 Current Year: 23211.071

Our EBITA margin is up by 50 basis points. As you can see, that is a cocktail. The impact of CICE is coming through but also continued pricing pressure takes a bite in our gross margin. But on balance, we see this clear improvement.

On CICE, you might have noticed that it is now sure that it will be no change in 2018, and it's a bit too early to give details on 2019, but there is a clear awareness at the government that this kind of support for the labor market needs to continue. The only question is in what form.

Moving to Germany, which is continuing to grow at a pace of 9%, and the SME now continues to outpace the growth that we see at large clients. And this is also very much a result of our own strategic focus. Perm growth also continues nicely, and as you can see, we can see improvements in the professional space. Our EBITA margin is slightly down. That does not worry us because it is clearly the reflection of the impact of working days in Germany, three fewer working days, and also the sickness rate. But the key contributor is working days, clear.

Belgium, slide 12, accelerating top line with record profitability and clearly ahead of market, revenue now at 14%, where Staffing and Inhouse is leading. Actually, that's the point to make in the European acceleration, we do see industrial growth very often served by Randstad Inhouse there which is taking the lead, which in many ways is logical when an acceleration is coming through. The EBITA margin came out at 6.5% compared to 6.3%, so another improvement here.

Iberia, on slide 13, very strong top line trend as well here. If you look at the Spain, it's a reflection of tight operational steering. Revenue growth now at 19%, and also perm continues to grow, but as I said, that's a volatile business. Revenue growth in Portugal at 8%, and an excellent EBITA margin now of 5.1%, and we've put in the ICR here just to show what is feasible if things are all going into the right direction.

And then we have the miracle in Italy, 14, slide 14, continued high revenue growth. It's not miracle in terms of high growth, but the fact that the integrated business is performing so well obviously for Obiettivo Lavoro, I think that is something that we should point out. It is clearly contributing to high growth in Italy as well now.

By the way, it also indicates our ability to grow by 29%, but with our standardized best practices, we are able to serve this kind of opportunity. Also, in Italy, a lot of growth in the industrial sector driven by Inhouse.

EBITA margin is 5.8% now. If one would make an adjustment for the acquisition, the improvement would be 100 basis points.

On slide 15, the other European countries, not a bad story at all. If you look at the UK, improving to 2% positive territory. Also, Nordics in double-digit space now with the Proffice integration on track. Switzerland, 22%, continues at a very high pace. Poland is also a good improvement. And the EBITA margin slightly lower. Again, this is solely the impact of working days effect in our big Nordic business.

Slide 16, the rest of the world. Also improved revenue growth here across the board. Japan up 6% compared to 7% in the previous quarter. Also, here, our acquisition is also challenging us on the growth rate by coming in with 18%. Australia and New Zealand, 14%. China, 10%. Latin America, 21%. And the EBITA margin, which is a key focus here, improving to 2.6%.

Looking at our M&A track record here. RiseSmart is underway. Proffice, I referred to it, it's in line. Obiettivo Lavoro, I cannot say anything else, but that is that.

Clearly, Careo also ahead. Monster, we'll talk about on the next slide. BMC, the acquisition in the professional space in the Netherlands ahead and Ausy underway. By the way, on this slide, the first three columns indicate the reason why we make the acquisition and the fourth one is showing us our progress towards EVA after three years. The three columns, the first one is bigger in staffing, the second one is bigger in professionals and the third one is to accelerate our digital strategy.

Jacques will now talk a bit more on the progress made of the Monster. But before doing that, in terms of synergies, I want to point out once again that we've made this acquisition also with the synergies in the first two blocks in mind. On the one hand, these were the eliminated public cost of the company which provides us with savings of €7 million

Company Name: Randstad Holding Nv
 Company Ticker: RAND NA
 Date: 2017-07-25
 Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
 Current PX: 52.33
 YTD Change(\$): +.80
 YTD Change(%): +1.552

Bloomberg Estimates - EPS
 Current Quarter: 1.210
 Current Year: 4.169
 Bloomberg Estimates - Sales
 Current Quarter: 5838.000
 Current Year: 23211.071

annually. And also the specific tax structure of the company providing us with the opportunity to depreciate the goodwill resulting in an annual €17 million benefit from taxes. So, that sets the base for the remainder of the investments to be justified by the other initiatives on which Jacques will now share some steps with you.

Jacques W. van den Broek

Yeah. Good morning, everybody. Monster, hard at work. We knew Monster was a company that needed improvement as far as we're concerned, it always starts with leadership. So, we have a new management team in place at Monster since May and they are doing a few things. First of all, they're taking a very good look at our cost base. We think the cost base of Monster have some improvement potential and we aimed to have a significant cost saving within Monster which we planned to announce in Q4 or at the Q3 presentation.

Second one is the brand refresh. So, Monster is not very well-known with millennials which is a crucial audience for us, but in general in the labor market. So, some of you might have seen the approval of firstly, Monster out there. First indications saw that this leads to traffic which is always the start of the recovery of this business model, early days are set, but it gels well with the millennials over here.

And then another thing which is important for us is the Monster capabilities for Randstad. So, every Randstad consultant in the U.S. or – and in Europe, now has a full suite of Monster products at its disposal. And we really learn here. We're learning from Monster how to communicate with an audience through digital means. It leads to more traffic for our consultants in Europe and U.S. which is crucial in the labor markets because candidates are increasingly hard to find.

So, part of work as we mentioned. It will take 2017 to repair and improve this business.

Robert Jan van de Kraats

Thank you, Jacques. Moving on to the financial results and the outlook on slide 20, the P&L again once – again, I would like to point out that typically in terms of seasonality, Q1 is the softest quarter of the year, then Q2 is stronger. Q3 is the strongest and typically Q4 is close to that but just below. That's a normal pattern. Of course accelerating growth or changing – changes in growth rates can have an impact here. I think we have addressed most items in the P&L. Please note that the EBITA margin 4.5% here compared to last year, 4.7%.

Again, the working day impact calculated at a negative 20 basis points which was a benefit in the first quarter. And on top of that, the 30 basis points digital investments. We also incur some integration cost and one-offs; €8 million relates to integration and €4 million to one-offs. Our net finance cost, it looks as if interest is a little bit higher. That's not case. It's stable compared to Q1, but we also have some other items here such as foreign exchange.

Moving on to our segment reporting on slide 21. I think a pretty good story here Staffing improving to a return of 5%, as you can see. Inhouse Services, it is hovering around a very decent level, you might note our previous statements or historical statements that this segment should deliver us between 4.5% and 5% EBITA at the max whilst we have been there for many years now. So, these are sort of the levels that we are aiming for. A bit more this time from our French business coming in that might depress it a little bit, but I think across the board this is a pretty good performance.

Our Professionals business was impacted by the working day impact in the second quarter, but across the board also if you look at the first six months you can see an improvement here. And our Global Businesses that it does include the investments in the digital space through Monster.

Our gross margin bridge on slide 22, which is a year-on-year comparison. So, from last year's 18.9% to 20.4%, this year actually two key components here next to slightly lower perm placement growth. It's the big green box, which is the addition of Monster which comes in with of course a very different P&L structure and as such has an impact on the global gross margin as well, and the temp margin being slightly lower, which mainly includes the growth as I said at

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

the very beginning in markets with a somewhat lower gross margin mainly serve to our – through our Inhouse model with as you just saw good returns.

Operating expenses bridge now on slide 23 which is a sequential analysis here from Q1 into Q2 and what you see here is clearly that better, yeah, better leverage than in Q1. I think that's something as a board that we have focused on. We've tightened our steering in that respect. And you can see here, our organic investments, our M&A, again, these are not the transaction costs, these are the costs related to the companies that have been acquired. But across the board, I would say a relatively standard and normal picture here.

Net debt on slide 24 at €1.5 billion, roughly our leverage ratio of 1.5. When discussing the P&L, I refer to the seasonal impacts. Please note of that throughout the year. The second quarter position in terms of net debt is the highest point, if it's the net debt by the way through the year because that accumulates our dividend payment, the payments of the holiday allowances and in the second half of the year, we don't have those items, so we should see deleveraging towards the end of the year as we always see.

What you also see here is the impact on DSO. This is also our growth in countries with somewhat lower gross margins as I said but they also come in with slightly higher DSOs and that is what you can see coming through here next to the acquisitions we have already explained. The Italian acquisition that came in with very high DSO and we're currently working on bringing that much more in line with the rest of the business.

I'm moving to the free cash flow now, on slide 25 that is. A few things here. A change in our operating working capital. That's a negative which is again completely in line with the acceleration of the top line in countries with slightly higher DSO and also our acquisitions.

It also includes the adverse effect of some positive timing differences from the first quarter. So the reversal of favorable timing of payments from Q1 into Q2. If one neutralizes for that, the picture is standard.

Our net capital expenditures, I think that's a great expression that we do control our digital investments well. And finally, the inflow is not yet there but we do anticipate an inflow of €70 million in the third quarter which is the first kind of installment from the French Government that we should receive in Q3. And as you can see here, the dividend payment in line with the decision to pay a cash dividend only.

That brings me to outlook on slide 26. Our organic revenue growth was 9.3% in the second quarter which is in line with the June exit rate and the indications in July. As you can see here, the exit rates in North America, low-single digit. In the Netherlands also, and that we have a wonderful table of countries with high single-digit or double-digit growth, France, Germany, Belgium, Iberia, Italy, rest of Europe and world as well as Global Businesses growing at either high single-digit or double-digit.

So, you can hear the tone of voice reflecting that. I think we're very happy to see this coming through. Our gross margin in Q3 is expected to be slightly down sequentially as always. Actually, in Q2, we expected an improvement, but that didn't happen because of the acceleration of growth in the South European markets mainly. For Q3, our operating expenses are expected to be lower sequentially on an organic basis, and this relates to a seasonality again, and we're also looking at making some adjustments in the cost base of Monster. Then we have our Q3. I already mentioned it. We have an unfavorable impact of one working day. We don't just expect it. We know for sure it's going to happen. Our M&A activity will continue to be limited in the coming quarters.

And finally, we'd like to share a lot more with you on our Capital Markets Day on November 21 in London, and we hope to see you there. So, we hope this elaboration deals with most of your questions, but if you have any left, please go ahead. Operator?

Q&A

Operator

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

Thank you. We have a question from Tom Sykes of Deutsche Bank. Tom, the line is now yours.

<Q - Thomas Richard Sykes>: Morning, everybody. Just brief actually on the growth of Inhouse in Iberia and Italy and just whether you could say where – I mean not exactly, but where do the gross margins and operating margins of the Inhouse model in those countries compare to where you are in the Netherlands, please? And maybe just if you give, kind of, directionally, where would you say your Inhouse profitability is in the Netherlands compared to, say, a couple of years ago, please?

<A>: Hi, Tom. Good morning. Our profitability in the Inhouse business is sort of hovering around this 5%, a bit lower, a bit more. So, I think these are the indications that we can share with you. And as I said, the growth came in with just below the average of almost 5%.

<Q - Thomas Richard Sykes>: Okay. But do you think that the – I mean, is the conversion ratio that you might be able to get in Italy and Iberia are a bit better than you can get in other countries? It's growing quite quickly if you like...

<A>: Yeah.

<Q - Thomas Richard Sykes>: Non-Netherland Inhouse has grown quite quickly, and so, therefore, is that a net-net positive for you when you look at the margin that you can get on Inhouse overall?

<A>: Yeah, Tom. It might also – I mean, some additional expenses. Italy never had big base of Inhouse. It has grown rapidly over the last two years or so. So, I think we still have some opportunity for optimizing that result, but it's all around the 5% mark.

<Q - Thomas Richard Sykes>: Okay.

<A - Jacques W. van den Broek>: So, Jacques here to elaborate here, conversion is definitely the name of the game in our Inhouse business, in our large client business in general. Again, this is where technology plays a role. So, on the agenda on the Capital Markets Day will be technology in this space, so watch that space.

<Q - Thomas Richard Sykes>: Okay. If it's possible to ask a very brief follow-up, just on Germany, would you be able to say what the autos and non-autos businesses doing in Germany, please?

<A>: Growth is pretty stable in many industries. Of course, auto and anything related is an important sector in Germany and is actually doing well.

<Q - Thomas Richard Sykes>: Okay. All right. Thank you very much.

<A>: It's an essential part of the economy. So thanks for limiting yourself to two questions. I would want to ask everybody to do that.

Operator

Our next question today comes from Toby Reeks of Morgan Stanley. Toby, please go ahead.

<Q - Toby W. Reeks>: Hi there. Can I have one on Monster and then one on CICE? So could you talk a little bit more about expectations around investment in Monster, the tax benefit that you guys talked about, is that multi-year, is that one year? And then you've sort of lifted your view a little bit on Monster cost management going forward. Is there anything we can expect from that?

And then on CICE, what would that look like if we move to subsidy? Could you talk, make a few comments around that please? Thank you.

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

<A>: Yeah. Toby, on the Monster tax size, we first using the remainder of our losses that we can compensate for our tax accounts. And we anticipate that that will not take a very long time, it's a few years, and then we'll get through that, depending on our results of course. And then we'll move into using these. And these can be offset at the U.S. level. So this is like a pretty good foundation in terms of upside.

Further investments in Monster, we're working hard on reversing the trend. And I think, as I said, we are underway. We'll share more about that at the Capital Markets Day. And we're very tight in our steering here. We do see some efficiency opportunities that we won't wait addressing it, so that's going to happen soon.

On CICE...

<Q - Toby W. Reeks>: Can I just sort of ask a couple things? One is, are you able to quantify the tax losses that we should be assuming over the next few years? And then on those investments, do you perceive that for example in 2018, you'll be offsetting the additional investment you're making in marketing now for Monster with those cost savings? Is that the sort of way we should think about it?

<A>: No, no. that is not the way we thought about it. When we looked at the transaction economically, we looked at what we can, sort of, compensate through cost reductions, the €7 million. And tax planning which is the €17 million, and that will, I mean, as I just said when we go to our net operating losses. So, that is sort of the isolated, sort of technical side.

Next to it, we have just running the company operationally.

<A>: So, Toby the cost savings we're planning to realize will – to a large extent be used again to invest in the business. And what I mentioned mostly, marketing and next to that also investment in product. So, for example, they have now launched a new mobile app to connect to candidates (28:38). That works well. But those are investments.

So, saving on the one hand, investing on the other, but too early to talk to you about an outlook for 2018. As, Robert Jan said very much likely share with you that what we know and what we plan for in November.

<Q - Toby W. Reeks>: Okay.

<A>: And on the CICE side, first of all, as I mentioned 2018, it will continue as is, and 2019 some statements have been made that the preferred model would be to change it into a discount on social securities. But one needs to see whether it happens because it don't have an impact on the French state balance sheet.

So, that's in the minds of the politicians. But we're very happy to have that confirmation that such an essential element of support to the French labor market and especially at the low end of it, 2.5 times minimum wage. Remember that that is to continue. We're happy to have that confirmation now.

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

<A>: Thank you.

Operator

Our next question today comes from Marc Zwartsenburg of ING Group. Marc, please go ahead.

<Q - Marc Zwartsenburg>: Yeah. Thank you. Two questions, one on Monster, and one on France. First, on Monster, the revenue decline, is this roughly stable? Would the cost savings in the end also have an impact on your top line, and can you give a bit more color when you would expect to see some stabilization of that or some bottoming perhaps of the top line?

And then on France, you're now in both markets, it was not the case in Q1. Jacques, is it too early to already say that this is already seeing sort of the impact from your Tech & Touch strategy or is that [indiscernible] (30:35) should that be adding to your second half growth rate? Those were my two questions. Thanks.

Company Name: Randstad Holding Nv
 Company Ticker: RAND NA
 Date: 2017-07-25
 Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
 Current PX: 52.33
 YTD Change(\$): +.80
 YTD Change(%): +1.552

Bloomberg Estimates - EPS
 Current Quarter: 1.210
 Current Year: 4.169
 Bloomberg Estimates - Sales
 Current Quarter: 5838.000
 Current Year: 23211.071

<A - Jacques W. van den Broek>: Okay. We'll let's start with your latter one, Marc. Good morning. No, we definitely – we see it in many parts of our French business, most prominently in the perm business, but certainly also in staffing. Our people use our big data tools. So, every morning, they can see where there's demand. They've got some dashboards that they use on a client level to talk about the ideal profile to immediately reach out to the candidates. So, that does have an impact, absolutely.

Having said that, pricing pressure in France is not over yet. So, we still see some clients with, let's call it, funny demands. So, the overall picture of outperformance might be slightly tentative. We don't rule out in the second half of the year that we still might take decisions on client level, but then very much because it's not a profitable business. But where we are – where we want to grow, we're very much growing in France as a result of the support mostly of technology. Not just technology but it helps.

On Monster, my proposed savings that we're going to a full analysis of the current cost at Monster. Obviously taking out cost which doesn't affect our top line. But it's too early to say where the current top line development is going to go. This is a sequential picture. You first start to invest in marketing then in product then you get a better seeker experience so you get more traffic on your side which you then need to sell through your clients. This takes time so this is too early to say.

<Q - Marc Zwartsenburg>: Would you expect to say something on, say, November? Is that a good point to give the proposal where you said...

<A>: Yeah. We will, we'll comment on – well, what we think are import parts of our strategy going forward in digital of which Monster is a big component.

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

Operator

Our next question today comes from David Phillips of Redburn. David, please go ahead.

<Q - David Phillips>: Good morning. Can you just talk a little bit about the German margin, in the commentary you said that was all going to working days. Can you maybe just break that down say how many and solve the puzzle a little bit because I'm getting slightly – maybe something else involved in there as well.

<A>: Actually, there's nothing else involved in there. And please note that the structure of the German market is such there are employees, the employees that are – have worked with our clients are either on a contract for defined period of time offered and defined period of time and we pay them monthly wages. So, let's say the cost side is fixed and the income side is depending on the number of hours that these people are working. And then we have the hurdle of having the bank holidays. And let's say, in general, less working days and even in some cases that people say, a day just before our or after those bank holiday. So, that is the analysis of our German business. The result is thoroughly – the change, the delta in the result is thoroughly related to this impact.

So, on the line days, our margin is actually quite stable. It's a similar picture you see in other markets. Our SME business is outgrowing our large clients.

<Q>: Okay. Great. Thank you. And your Canadian performance is quite good. North America, up 1. So presumably the rest of the U.S.A. running about flat as you get slightly better than we saw from some of your competitors yesterday. Could say a little bit more about the industry pattern that you're seeing. And also you mentioned some wage inflation. Could you put a quantum on that in North America?

<A>: We want to talk more about Canada.

<A>: Yeah.

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

<Q>: Canada.

<A>: We do see wage inflation in our staffing parts. So, around 2% to 3%. And we see low level, low-single-digit growth in our Staffing business. We're slightly ahead of market, mostly driven by our in-house blue collar business. And we see – still a negative performance in our professionals business. Very happy with the trend in our biggest business, our technology business which is now growing. But still in our financial and accounting business, and also professionals as we call it over there. That's still negative. So, work to do.

<Q>: Great. Thank you. That's fair.

Operator

Our next question today comes from Konrad Zomer of ABN AMRO.

Konrad, please go ahead.

<Q - Konrad Zomer>: Hi. Good morning. Just one question from me. On your French perm business, you mentioned it was fueled by tech. I just wanted to clarify, is that because of the Ausy business that is pushing the growth rate up and the margin up, or is that because of your digital big data technical improvements that you've put through in France?

<A>: It's the latter, so it has nothing to do with Ausy. Ausy is also not a perm business. So, Ausy is an IT and engineering business that has the people on a contract. So, if there's any perm at Ausy, it's very, very limited. No, it's very much a tech, Konrad.

So, as you know, perm is a business which is quite transactional. So, it's quite important to see where demand is. So, every morning our French colleagues can see that. Perm is also a business which you need to discuss the profile, what are you looking for, is this profile to be had, what's my employer brand in the regional labor market, all that data is favorable at the hands of our consultants. It's actually quite an impressive set. I talked about it at the breakfast in London a little over a month ago with a few of your colleagues and happy to do so again in London. So, we'll make a selection just to show you how this works.

We're very happy with the performance. We're even more happier with what it brings to our consultants. Their job is – it was already a great job, but I think it's an increasingly better job, which is the ambition we have for all of our consultants going forward.

<A>: Yeah. And on top of that, I also think we should add that. The rest of our business, our staffing business is also supported by Tech tools, which we have shared with you a while ago, which are used to the full extent and clearly supporting the growth rates in this market as well.

<Q - Konrad Zomer>: Okay. Thanks a lot.

Operator

Our next question today comes from Andy Grobler of Credit Suisse. Andy, please go ahead.

<Q - Andy Grobler>: Hi. Good morning. Just a couple for me if I may. Firstly just on digital and I realize you talked about some of this previously, but you mentioned kind of €17 million, €18 million of cost during the quarter, the 30 basis points margin. How much of that, particularly as it relates to Monster, is one-off, so just for Q2 and how much of that is going to be ongoing?

And then, secondly on Italy where the growth was very strong, I think into Q3 OL annualizes, can you split out the difference in growth rates between the Randstad businesses and the OL businesses? Thank you.

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

<A>: I'll take the latter one. It's now an integrated business. So, the interesting point to make is that third quarter, on the top of my head, last year Randstad saw double-digit growth but OL was actually negative. And now the combined business is growing organically 29 basis points. So, I think you can say this is a world-class integration. We're very impressed with it, with what our Italian colleagues have done there. We've not lost any consultants.

So, given the fact that was already a growth, a market to begin with, we left everybody at the front end in place and I think in hindsight, it was a very good decision. And people pick up on the growth momentum that was there. So, very happy with that one.

<A>: And on digital, we announced that we would make an additional investment in marketing in Monster which probably adds up to some €7 million but please note that we also are making investments in other digital investments in the company, but the biggest part of the 30 basis points is indeed Monster.

<Q - Andy Grobler>: So, just a follow-up on those. So, as we go into Q3, that €70 million and €80 million will be dropping to €10 million, €11 million. Is that a reasonable?

<A>: So, that's rather precise. We are also working on further investments in Monster. So, well, you have to give us the space to operate this business with a few millions of own decision area.

<A>: Maybe and also on digital. So, this is not just cost for cost stake. So, we are finalizing products that we are going to roll out. So, whenever we see great business case to support our people, we're going to invest to roll this out.

Like I mentioned, for example, on our, what we call, job scheduling space, we are preparing a rollout based on again the good experience we've had in our French business on I would call automated planning. So, that's an investment. But these investments drive business cases. So, this is not a static number.

<A>: No. Not at all. And in the Monster, we could give you the additional investment amount, but we're also going to go through some additional savings. So, it would be too precise. But I think we're not discussing here big deviations.

<Q - Andy Grobler>: Okay. Great. Thank you very much.

Operator

Our next question today comes from George Gregory of Exane. George, please go ahead.

<Q - George Gregory>: Good morning. Just one for me, please. On the tax rate, I think your effective tax rate was 27% for the first half, and you're indicating that it will be at the upper end of your range for the full year. Just interested in what is pressuring the tax rate upwards, and also when you'll start to realize the Monster tax synergies. Thanks.

<A>: I think Jacques wants to answer this one. He's looking eagerly at me.

<A - Jacques W. van den Broek>: It is – George, this is purely mix – mix of earnings in various tax geographies that's causing this. Our cash tax rate is clearly below this and usage of the Monster benefit is a factor that's depending on how quickly we run through the existing net operating losses, but this is not going to last for like a decade or whatever, it's going to be addressed earlier if we continue the current trend.

<A>: And George, it is the tax asset of Monster will mainly impact the cash tax rate.

<Q - George Gregory>: Okay. Thanks.

<A>: Yeah.

Operator

Our next question today comes from Rajesh Kumar of HSBC. Rajesh, please go ahead.

Company Name: Randstad Holding Nv
 Company Ticker: RAND NA
 Date: 2017-07-25
 Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
 Current PX: 52.33
 YTD Change(\$): +.80
 YTD Change(%): +1.552

Bloomberg Estimates - EPS
 Current Quarter: 1.210
 Current Year: 4.169
 Bloomberg Estimates - Sales
 Current Quarter: 5838.000
 Current Year: 23211.071

<Q - **Rajesh Kumar**>: Hi. Good morning. Just one question from me. When you talked about candidate scarcity, which other regions you're seeing candidate scarcity, and I know you referred to Europe big data earlier, could you elaborate on how better you're able to identify these pockets of scarcity. What about wage inflation, how does your data tools play into that? That would be very helpful.

<A>: Well, scarcity of candidates is pretty broad base, definitely in certain areas in the U.S., in Europe increasingly, in the Netherlands, Belgium, the Dutch-speaking part, Germany only the southern part over there, in any professionals part. So, our ambition really through digital reaching out to candidates is staying in contact with them. So, we feel that active jobseekers will be very limited going forward, so it's all about managing and staying in contact and engaging passive jobseekers. Again, this is where the capabilities of Monster come in. So, we've got the ambition to stay in contact with 300 to 400 million people that have connected with either Monster or Randstad and connecting with them whenever they are eligible for a new job.

So, that's how we're going to address scarcity. Next to that, as you know, we're a global company, so we do see demand in Europe, still candidates in Asia. So, this is early days but we definitely expect more mobile traffic, more mobility throughout the world on candidate, and this is also where we going to play a role here with our larger clients.

This is very much also where stores, right, plays a role. So, what you see is that our role for clients is very much, of course, it's still about getting them the candidates they want every day, but it's also navigating the future for them, where will I get my candidates from, do we need to train them, do we need to change my profile to set up my company in what I buy or what I employ myself. So, this is a role that we play, and again technology and data will help us there.

<Q - **Rajesh Kumar**>: So, is it more related to the SME customers, large customers or is it in a certain sector, IT or manufacturing? And could you give us some flavor in terms of where the scarcity is building up?

<A>: Well, interesting enough given the fact that any industry is now software base. So, relevance of scarcity and sectors is not so much the case. It is still in Europe. Blue-collar is not scarce yet, but looking at the economic improvements and also demographics, we also expect this to become more scarce. So, scarcity is more at the middle to top end of the labor markets certainly in STEM job.

And not so much small companies or big companies, it's pretty much across the board.

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

Operator

We have a follow up question from Marc Zwartsenburg of ING Group. Marc, please go ahead.

<Q - **Marc Zwartsenburg**>: Thank you. A quick follow up. On the Netherlands, the comps are getting easier now, should we expect to see some acceleration there in the second half, anything you share as to July perhaps?

<A - **Jacques W. van den Broek**>: Yeah, that's tough to say, Marc, because as you know, we take decisions on clients. So, on a one hand, we see good growth, as Robert Jan mentioned in our SME business, good pricing, see good growth in our Inhouse business, and good conversions. But we still have some tender running on clients. They still need to be educated on where the market is going, and we might still take decisions that will affect our top line but not our bottom line. So, that's tough to say.

<Q - **Marc Zwartsenburg**>: Yeah, but that's already the case now for several quarters, that the market is sort of aggressive. Is there any change – possible that you might say you would change strategy, we take – losing a bit of market share that you say, well, we draw a line..

<A - **Jacques W. van den Broek**>: Well, we definitely draw a line in the sand, Marc. And yeah, well we grow 2%, 3% less than we could on the base of these decisions. We've got a very profitable business, growing in Inhouse, growing in profits and perm. So we're sort of happy.

Company Name: Randstad Holding Nv
Company Ticker: RAND NA
Date: 2017-07-25
Event Description: Q2 2017 Earnings Call

Market Cap: 9,589.89
Current PX: 52.33
YTD Change(\$): +.80
YTD Change(%): +1.552

Bloomberg Estimates - EPS
Current Quarter: 1.210
Current Year: 4.169
Bloomberg Estimates - Sales
Current Quarter: 5838.000
Current Year: 23211.071

We do think that when the economy improves further, that clients will see the light.

<Q - **Marc Zwartsenburg**>: Okay. Right. And maybe, one quick follow up on the gross margin for the group. How much would you say is the pricing impact on the group level from say, the likes of the Netherlands or France?

<A - **David Tailleu**>: Marc, it's David. It's limited, so there's actually a mixed effect of Inhouse which is about 20 basis points negative and there are some slight impact of pricing and working days.

<Q - **Marc Zwartsenburg**>: Okay. All right. Thank you.

Operator

Gentlemen, we currently have no further questions, so I hand the line back to you.

Robert Jan van de Kraats

All right. Thank you so much for joining us in this call to discuss our second quarter results, and we're looking forward to again meet you in the next month or at the discussion of our Q3 results at the end of October and certainly at our Capital Markets Day, 21st of November in London. Thank you. Bye. Have a good summer.