

Q3 2019 Earnings Call Transcript

Jacques Van Den Broek, Chief Executive Officer

Yes, thank you, Jess. Good morning, everybody. It's Jacques Van Den Broek here in Diemen with Henry and Steven and David taking us through our third quarter of 2019. So let's go immediately to Slide six, yeah, it's uncertain macroeconomic circumstances, you all know that, but still we are satisfied with our good set of numbers very much in line with what we shared with you on how we're managing this business.

Our organic growth slightly eased in Q2, again main culprit here, if you might call it that, is the industrial related very much the automotive. If we look at our 2.5% decline in Q3, we can attribute 55.0% to automotive, predominantly in the German market but certainly also in the Dutch and Belgium one. Europe, in terms of economic growth, is most challenging. The revenue decline in the whole of Europe of 4% stabilized versus Q2, be it on slightly easier comps. Our North American growth, predominantly in our industrial-related areas, in our inhouse businesses, we have softened slightly for us Q2. I'll spend a little bit more time on that, of course, when we go through the countries. But rest of the world -- and also our global professionals business is very good to see. Of course, that -- both through our global presence, but also through our portfolio per country we do, where the top line pressure -- well, most of our professionals businesses in quite a few markets still show growth.

Given the exit rate of September, we feel that the recent trends will probably persistent growth, as always, is tough to call certainly in these uncertain environments. Our EBITA margin was slightly down, although our margin was robust. Our gross margin has been robust throughout the year and, at the same time, I mentioned it before in the second quarter, we don't want to optimize short-term results. We still want to catch growth, where we can catch growth, and, of course, definitely still invest in our digital transformation. Within those markets, we're very happy to mention that in our French business, our German business and our Italian business, we performed better than the market. Rest of the world, as mentioned, doing very well against tough comps there, because this region really start to become an important one for us last year. So, at some point, comps catch up with you, but actually so far so good. Gross margins, doing quite well in several countries; the Dutch, the French, the Japanese and the U.S. market, which is a mix. It is -- we have mentioned that before, our focus on pricing, supported by our digital pricing tools, at the same time it is tough to find people even in many markets in Europe and the mix effects of our blue-collar market doing slightly less growth.

Highlights for us. This quarter is very much our free cash flow, already part of our story for a long time. If we grow less, we need less working capital. We also very diligent on DSO. Henry will spend, of course, some more time with a record high of EUR468 million, we're very proud of what we're doing here.

Then, on our digital strategy, we're very happy to announce the proposed nomination of Rene Steenvoorden as a Chief Digital Officer to our Executive Board. As you have seen, we are changing, also, our top team towards the new priorities. Historically, those were always countries and regions, but next to that, that remains important of course, is very much digital and also clients, international clients and international businesses and more on that one later.

In general, digital strategy progressing well. What I would like to highlight is our workforce scheduling clients from 1,600 clients now active with these tooling and what we found is that out of the 22 new inhouse clients we landed, for example, just in this quarter in the U.S., 88.0% said that they did so because of the tooling and the digital support that we provide them.

Let's go to Slide seven, a little bit more in depth in the regions. North American business, staffing inhouse down 4%. This is a mixed thing. Yeah, we do see, and this is always a good indicator, with our inhouse businesses less demand. They are uncertain and they just -- well, have less temps with us. At the same time, we also under invested a bit in this business, as we said. We're addressing that, but at the same time this takes time to bring in people, to train people, so still one or two quarters out, but addressing this issue. This, again, in general, in these environments where you see 1% negative growth, 2% negative growth, it's tough to call, and we want to be on the safe side, ideally, not to go too fast in cutting costs. It's always this balancing it.

Quite happy with our U.S. growth performance. Our IT business grew 4% in top line, but grew 7% in GP. We think we are slightly ahead of the market, which is a long time ago. Our S&I business, a mixed picture, still negative in the staffing part, but 13% growth in perm, so also some good news from that area. Our Canadian business was hampered by legislative change, a year ago, but is bouncing back. So good, but also a further progress in profitability. Overall, perm 4%, still a good perm growth, again showing the tight labor market in the U.S.

Our EBITA margin, stable, high, as 6.2% is high in our book; at the same time, we are investing in staffing but was also the slower top line growth at very decent pricing. I mentioned in-house already earlier, but we will have a record amount of openings in our inhouse businesses, 62 new clients this year, it doesn't show, but certainly going forward having more of these clients will create a bigger base for us. Still, remember, in the North American market we have a 3.3% market share. So lots of room to grow very profitably.

Our French business, quite proud of our French business, both on the top line and also on the profitability level. Yeah, absolutely uncertain macroeconomics, but we do see a difference in automotive in Germany and France. Germany, really impacted by trade wars, China, the German automotive sales internationally French automotive sales in Europe. So, yeah, absolutely also pressure there, but less compared to Germany. Yeah, 1% down on market, will show better than the market. As you know, our French business is and has been an early-mover in workforce scheduling in digital adoption, in general, and that shows. Our Professionals business, very sound growth. This is our OC business in France, but also our healthcare business and also Expectra, really contributing, just -- not just the growth, but also to profitability, because this business comes in at a higher EBITA.

The Netherlands, yeah, I want to spend a bit more time in the Netherlands, because, of course, you asked us some questions on what goes on in the Netherlands. Well, first of all, on the top line, very much the automotive that also has already in Q2, but certainly now permeates into the Netherlands. In the Netherlands, we make cars, we make buses, we make trucks, and that is under pressure. Also, this morning, Tata Steel announcing cutbacks. They are also active in automotive. Professional is still robust, in general. Also here, our portfolio pays-off. But, at the same time, perm is under pressure and that does show that the Dutch economy is undergoing a little bit of uncertainty. Still good profitability, but slightly less than last year. We will be aligning our cost base further in the Netherlands based on this top line development.

So let's talk a bit about the WAB, which in English we'd say towards a balanced labor market. What the Dutch government tries to do is make fixed labor less fixed and flexible labor a little bit more fixed, if you will. What they are trying to do is increase the cost of flexible labor, therefore, hoping that clients will hire more people. Honestly, see -- honestly, we have seen many of these laws before, they never really pan out, because companies need to be flexible. The risk is that you get to a different less well regulated flexibility, but time will tell. What is happening here is that, due to lower unemployment ben or higher unemployment benefits, flexible labor will be more expensive. Also, there is a, call it, transition allowance of people when they lose their job, that was already in place in the market, but now it -- and that was after two years of working as a temp, now it is from day one. So we are all for improving the position of flex with this, of course, but what we will see here is that the cost of well-regulated flex work is more expensive. It's a bit tough to call, how much more expensive, but, let's say, anywhere between 6% to 9%. So that's quite something. We have seen that before, of course, in many more markets. In Germany, the cost of labor has gone up. We've seen it in Canada recently and also in the UK, when they went to equal pay. So we've seen it before. Short term, you will see some pressure on volume, we think. At the same time, clients are not very much aware of what goes on, so we're hosting webinars, we're talking about how you manage your total workforce. There are clients, I'm also talking to clients as many of you know who, by managing the total workforce back or you can probably offset the cost, but time will tell, lots of work going on, but this is what's happening in the Dutch market as we speak, very tough to have projections on this one as of January. So you can ask, but, again, it's tough to see, it's going to be the result of many discussions with many clients.

Germany, yeah, still challenging, it goes from minus 15% to minus 14%, but on 5% easier comps, so we're definitely not out of the roots yet, some signs of stabilization, but we also -- in automotive, where we also see industrial segments, in general, coming down to some degree. Yeah, not much to say there. We've got some questions on the (inaudible). So, as you know, we have all our people in the field on 10% less working hours per week and we can do this up to the 1st of July, next year. So

time will tell if this is enough given the conditions in Germany. We don't see it going up yet, honestly speaking.

Belgium market, robust profitability, very happy with our Belgium business, although, at the same time, also their top line is related to automotive, our exposure to automotive and related to some 10% of our EUR2 billion of revenues in Belgium. And so -- and we have a 26% market share. So it does hit us. But, as you can see in the profitability, again, we can weather that storm. Belgium business is a very diversified portfolio. Also, it has professionals in the mix. Asus is also in Belgium, so in that sense, yeah, well done by our Belgium colleagues.

A country we're also particularly proud of is our Italian business compared to five years ago. It's probably three times as big, it's quite -- it's performing above market. Our Italian business is actually the benchmark when we talk about training people. And, as you know, we don't own training companies, we don't have the strategic ambition to train -- to own training companies, but we do a lot in training. So we have now, in our Italian business, trained 30,000 people and going forward. So, very helpful, these are mainly small training. So seven hours, on average. I'm very -- personally -- well, we're out of Formula 1, as you know, but we, for the last five years, every year, we provided 50 to 70 young engineers and technicians to Toro Rosso, very popular job, 3,600 CV's and then, at the end of the day, 50 people come out. So, again, almost 6% EBITA out of our Italian business, well done there.

Iberia, still growth. Well run business in Spain, improved profitability. Portugal, down. Portugal has -- the large part of our Portuguese business is a call center business, which see some dampers in revenue, but certainly overall our Iberian performance, a very stable -- well, portfolio with increased returns.

Rest of Europe, yeah, Rest of Europe very quickly share, but of course totally different countries. UK, stable picture for a long time, Brexit, but, yeah, it is now down 2%, it was stable in Q2, not much happening there, insecurity. Nordics, 7%; Swiss growth above market, but stable, and our Polish business also slightly down. At the same time, goods cost containment, there is consistency there and also an improved EBITA margin in this region.

Going to the rest of the world, definitely the highlights has been for quite a few quarters and it is not hinges around any specific countries. Japan absolutely doing well, 19% growth in India, Brazil, Mexico, very happy with the performances over there, a really, really helpful for our overall results.

Then going to Global Businesses, what I shared with you last time is the fact that, for me, Global Businesses very much represents what the rest of the world was five years ago. So we are investing, we are creating something new. We have put and nominated Rebecca Henderson in our Board to run our Enterprise businesses, our large businesses through Sourceright, but also RiseSmart amounts as part of that portfolio.

And we have created this quarter, an Enterprise Group, what does that mean? Our Enterprise Group addresses large clients throughout the world. Clients with EUR500 million to more than EUR1 billion in spend. These clients are increasingly worried about the future, how they get talent, how they reskill their own workforce for the future, how they use technology to get people in, to assess people, to test people, to train people and we help them. I call this -- we answer the question for these clients on how we organize work. So what we're doing here is, we're mobilizing a full suite of services towards these clients. So in their IT part, our engineering part we have our Statement of work business. We've got data that moves, so is very much a part of this. We can show clients, where people are -- still are how clients stack up on social media? How they also can use job posting and that sort of -- and we have advisory. So, it's very much helping our clients as we do it inhouse for a long time, how they set up their workforce now and in the future, at the lowest cost and the highest quality. So this is an investment area, and Monster is very much part of that investment area. As you've seen in Monster, the top line revenue, certainly the old job postings, are still going down for us and that's why we decreased cost, out of the EUR35 million we mentioned as a one-off, 40% is related to staff, although not client facing and then we have real estate. What we've seen is that while put -- putting people together, so runs for people with most of the people we get a very much, a better grasp of the total labor market. So that's why we took this decision in Monster. Sourceright, the biggest pool of company within our Global Businesses sees a good and strong acceleration from Q2 into Q3. So a good and healthy client pipeline, so overall, even though in an adverse economic situation very optimistic about the future of our enterprise group as a whole, because in this area there's not a lot of companies that can play. On that note, Henry?

Henry Schirmer, Chief Financial Officer

Thank you so much. Thanks, Jacques. So good morning everybody. So it's my pleasure now to take you through Q3 financials. So as mentioned by Jacques, the company delivered another sound operating performance and continued volatile markets and the strong gross margin, controlled Opex and excellent cash conversion setting us up with confidence for the remainder of 2019, but being mindful of market uncertainty. Our healthy gross margin performance provided room for continued selective investments to secure competitive growth. And if you know it's important for us to balance short-term performance that positioning the company right for the longer term.

Let me run you through the P&L to provide a bit more detail, but before I start, let me point out that our growth numbers are not adjusted for hyperinflation accounting in Argentina, it's impact for the Group is very minor. So revenue declined by 2.5% with around half of the decline coming from automotive. Europe remains challenging, but it's showing some signs of stabilization, while the industrial and manufacturing site in the US is experiencing some slowdown. It is very good that we can rely on our strong portfolio with our global professional and Rest of the World business showing fine growth. And equally important, is the fact that we could continue to achieve market share gains in several of our countries while being very disciplined about pricing. The wider use, the value-based pricing in the context of ongoing tight labor markets, that's delivering another quarter of robust gross margin performance. 20.1%, up 30 basis points year-over-year is motivating us to roll out the concept even more growth with new two more market, and obviously there are also some supportive mix effects at play, which we will lay out in the gross margin section.

Operating expenses were up 1% year-over-year, reflecting our ability to support our most promising growth opportunities, whilst going through continued efforts to adapt our cost levers to harsher market realities. Tight field steering is driven, personnel expenses are down 1%, FTEs are down 2% year-over-year. EBITA came in at EUR298 million but the FX than the EBITA margin.

On the next slide, integration and one-off cost were EUR62 million reflecting several items. Firstly, about EUR35 million is reserved for realizing additional synergies with Monster, but it's also adjusting the cost structure overall. In other EUR16 million, is related to the transfer of a Dutch pension plan to third-party provider, as already announced, in our quarter two press release. As the remainder, it still adjust our cost base to new market realities in several regions. Clearly, we are taking actions where we need to. So as always quite some moving parts and it's good to see the quality of results coming through, but we also appreciate the fact that we had some tailwind from one extra working day in quarter three.

So now on Page 14, let me unpack the gross margin for you. As you can see on the left, the temp margin continues to positive territory in quarter three, being up 30 basis points year-over-year. We are experiencing ongoing healthy pricing terms as a result of the structured management effort to utilize labor market data feeding our value-based pricing tools across our portfolio and as a result, we're better able to benefit from tight labor markets. Regions like the U.S., Netherlands, France, Japan, and Spain benefited in a significant way. It confirms our ability to price for superior value delivered to our clients globally. So please note that our gross margin trend is found without any tailwind from term this quarter or term fees were down by 1% driven by increasing uncertainty at our clients specifically in Europe. However, it is fair to say that one additional working day always show that positive in gross margin.

And lastly, we found the right to represent HR Solutions, which shows a neutral effect on the gross margin and it drove Monster mix effect which offset by a positive FX effect and other growing HR services businesses. As I highlighted before, in volatile markets, which is some significant shift in growth rates per region and concept and hence keeping a close eye on gross profit in relation to Opex. We keep making sure benefit is showing up in the EBITA. And that brings me to the Opex bridge on Page 15.

So here as Jacques already mentioned when it comes to Opex savings, we always try to find a smart balance to swiftly adjusting the cost base to the macro environment, while securing enough funding to capture the many growth opportunities we continue to see in the marketplace. Sequentially, we reported organic Opex down by EUR11 million which is year-on-year up 1% against tough comparables. Please note that this primarily comprised selective investments related to the digital

road map and other strategic growth areas. As mentioned, personnel expenses were down year-on-year 1% and full-time equivalents were down minus 2% underpinning the tight field steering. Finding the right balance between tough cost management, merging our growth engines remains a key priority and given the tougher macro environment, we will tighten our belts accordingly. Let me close that chart with the confirmation that we are fully on track to deliver our cost saving target of EUR90 million to EUR100 million annually by the end of this year.

So now on Page 16, let me shed some light on what it all means for our cash flow and balance sheets. We reported an important three record free cash flow of EUR468 million which is an improvement of EUR248 million on absolute terms and a main driver for the good free cash flow is strong working capital performance, reflecting our slowing top line growth by benefiting from tight field management and also favorable timing of the quarter. The development of our receivables and slowing growth environment perfectly illustrates the counter-cyclical nature of our business model, and please do not forget that the change in the French subsidy system is leading to an instant cash inflow. The last bullet on the left shows, days sales outstanding, which was slightly down over last year in quarter two 2019 on a 12-month moving average. As mentioned, our dedicated team management is delivering good returns and will continue to be a top priority for us. In the right hand of the chart going straight into our strong balance sheet. Here our net debt position improved by EUR479 million, that is quarter three 2018 to EUR1,595 million, which includes the lease liabilities of EUR634 million. And please note that the pre IFRS 16: our leverage ratio arrived at 0.8 which is 1.2 last -- in quarter three whereby last year's special dividend payment happen in quarter three as this year it's being paid in quarter four. This adjusted leverage ratio will also be the basis for our unchanged capital allocation strategy going forward. Our focus now is already turned to land a strong quarter four. I would call the outlook for the full-year 2019 free cash flow is very healthy. Finally, let me reiterate with the outstanding CICE receivable of EUR491 million, will be collected in the coming four years of which about EUR105 million will be received in this quarter.

That already brings me to the last page, on Page 17, let me summarize the key messages and provide you with an outlook for quarter four 2019. So firstly, it was good to experience a quarter of sound operating performance, competitive top line trends, robust gross margins and balanced cost management delivered against the backdrop of low economic growth in some of our main markets. September trade is in line with quarter three and we are energized to continue our drive the healthy gross margins and we are definitely well positioned to monetize the added value of our services in tight labor markets with our pricing tools gaining further traction. We see quarter four gross margins to be better than last year. However, slightly lower sequentially given working day effect and Opex broadly stable sequentially and while market conditions are uncertain Randstad is very well positioned to capture growth opportunities in the future. The quality of our portfolio, strong customer relations, the best excess with cost talent is giving us the confidence to thrive all from tougher market conditions. So that concludes our prepared remarks and I hope it helped shed some light in quarter three, we would like to take your questions. Jess back to you.

Questions And Answers

Hans Pluijgers, Analyst

Yeah, good morning gentlemen. First looking at France, can you, a little bit performed better than the market and also looking at the exit rate, you just -- going forward, but stable growth, what's the key reason that you think you're outperforming the market. Are there any segments you are doing better than the market and how you do -- that you actually see in the market performing through the quarter. And secondly on the Netherlands did -- let's say, the slowdown in growth is that, let's say, mainly driven by demand or is also issues on the supply side. And then looking at Monster, could you give maybe some feeling of the old business, how big that is still of total sales of Monster. And my last question, are you willing -- and indicated that you are in -- so it's in line to achieve EUR90 million to EUR100 million cost savings, but I assume that let's say most part of this already done, so not much we should, let's say expect for Q4. Is that correct?

Jacques Van Den Broek, Chief Executive Officer

Yeah, Hans, thanks for your two questions. Actually four.

Hans Pluijgers, Analyst

Yeah

Jacques Van Den Broek, Chief Executive Officer

Yeah, on France, yeah outperformance. So our French business as I mentioned in my presentation, is one of the businesses, which from additional point of view was further enhanced. So our people have, what we call data driven sales force, or they tend to go out to clients at the right moment in time and talk to them on the basis of local market data, what kind of people are available so that makes them a better salespeople, still very much in-house -- in-house driven by this workforce scheduling tool, which was developed first in France, so an early mover there. And, finally, we said goodbye to Aveeno, big client and that comparison is also easy. So that makes -- brings us to an outperformance also our Professionals businesses, Ausy, a high single-digit growth in France, and also our medical business doing quite well. So, that's the total mix that brings us to an outperformance. In the Netherlands no, -- although people are tough to find their homes. So the margin that we're getting is good for our business. It is really demand driven again predominantly in automotive related sectors and in the broad sense, industrial. On Monster, no, not really sharing that information what is although new it's very tough. So I cannot really answer that question for you.

Henry Schirmer, Chief Financial Officer

Yeah, on your last one Hans, hi, good morning. I hope you have focused on delivering quarter four on the strong session was in terms of cost savings and we've performed well and we are on track to realize our ambitions. I think we've demonstrated, one more time in quarter three, that we take actions, that where we have to and going forward also always look to improve productivity.

Hans Pluijgers, Analyst

Okay, thanks.

Paul Sullivan, Analyst

Yeah, hi, good morning everybody. Just lastly from me, could you give us a little more color on the payback? Do you expect from the additional restructuring you've announced today and the SG&A guidance in light of that and for the year, is your expectation of flat margins still achievable given the revenue decline. And then secondly, do you have any flexibility in the 50% payout for the dividend for the ordinary dividend given the potential for EPS decline, can you avoid further headline cut in the ordinary, even though the overall cash return through specials or buybacks may be very similar to last year? Thank you.

Henry Schirmer, Chief Financial Officer

Hey, I want to thank Paul for your questions. So on the first one, payback we normally seek to have a favorite below one-year time and that would be a growth of assuming again with that restructuring we've announced. The second one, we -- obviously we're not giving guidance on full EBITA margin that we've said all along that we have an ambition to protect EBITA margin as much as we can and we are already having all hands on deck on quarter four to bring another strong quarter. On dividend please allow us to first concentrate on the quarter four, and we will talk dividend once we know how the year-ended and we'll get back as we always do in quarter four results.

Paul Sullivan, Analyst

Great, thank you. Can I just follow up on the restructure, do you -- should we be price or any more restructuring in this quarter. If we don't see, if we see a similar revenue print to Q3?

Henry Schirmer, Chief Financial Officer

There is nothing in the pipeline. I think for the time being, we've made our adjustments, but as I learned one of our first weeks and I received from Jacques, we have mentioned business on exit, certainly, we see a forward deteriorating conditions we definitely do what's necessary to adjust the cost base, but, at this point in time, where -- we don't see any more connect there.

Jacques Van Den Broek, Chief Executive Officer

What you also see of course in Q4, you're not just from a cost point you're managing Q4. We are also preparing for Q1, which also is seasonally lower. So that's very much what we're doing in Q4, but we'll let you know.

Paul Sullivan, Analyst

All right. Thank you.

Konrad Zomer, Analyst

Hi, good morning gentlemen. My first question is on the OpEx development in the third quarter, as you showed, it was up 1% despite the revenue decline and you said it was to fund growth initiatives in your portfolio. Can you maybe be a bit more specific as to -- in which specific countries you've raised your Opex. And my second question is on the potential of a special dividend you've said all

along that the change to IFRS 16 is not going to change the capital allocation policy of the company, you showed the 0.8 net debt to EBITA today is that actually the number we should focus on in terms of calculating this potential special dividend or should we look at a slightly higher level related to your post IFRS 16, than this. Thank you.

Henry Schirmer, Chief Financial Officer

All right. On the first part, on the Opex, actually we -- so we are not providing a breakdown, but what we definitely do is we are managing business for its long-term health so if we have programs in terms of digital investments where we see good returns, we maintain those and ring-fencing goals and our -- in tends to adjusting the cost base. And what we're seeing, that is why we gave those two proofpoint, there is very tight field steering with actually personnel cost going down 1% and FTEs 2% as we are maintaining those, but it would make sense to break that out into countries, but because we are also developing FX for the entire business. On your second one special dividend (technical difficulty) IFRS 16 will not have an impact on our where, we are calculating leverage and please note that the 0.8 compared to a 1.2 last year is also influenced by the dividend payment in last year, we had discussions we've paying in quarter three this year, we made the payment already in quarter four in the beginning of October. So therefore the comparison looks a little bit to positive, but we are looking at the leverage ratio, as we did last year. Pre-IFRS, so we will not have an influence. And yeah, based on your question on special dividends. So you know our capital allocation policy, which is unchanged. Also for this year. So we'll get back to you once we know the full-year results and what that entails.

Konrad Zomer, Analyst

Okay. And just one quick follow-up, can you share with us what your proportion of your Dutch business is related to automotives, of assured PDL is quite a big customer, but (Multiple Speakers) Belgium what is it for the next...

Henry Schirmer, Chief Financial Officer

It's a little bit less than 10% high-single digit.

Konrad Zomer, Analyst

All right, thank you very much.

Anvesh Agrawal, Analyst

Hi, good morning. I just got couple of follow-ups on Monster yearly. First of all, given the amount of restructuring you are taking and your payback expectation, assuming that the top line trends of Monster kind of remains negative, but do you should -- can we at some point expected to the business to turn kind of profitable versus slightly negative on operating profit right now. And then the second is just like, if I look at the outlets by region, then within the Global Businesses your outlets are still grown sequentially in Q3 and on year-on-year and given the amount of restructuring you've take on Monster it kind of doesn't really add up. So maybe if you can give us some details there, please?

Henry Schirmer, Chief Financial Officer

Yeah, so we expect Monster be profitable in Q4. That's the first part of your -- the first answer to your question.

Jacques Van Den Broek, Chief Executive Officer

In terms of -- our distant terms mainly driven by inhouse locations in the U.S., where we've had some nice gains on client activity.

Anvesh Agrawal, Analyst

Okay. That's here, well thank you.

Sahasini Varanasi, Analyst

Hi, good morning. Just a couple from me, please. One is on the gross margin, it's quite impressive that the margins have expanded by 30 bps in the third quarter, can you talk about the competitive landscape and what exactly that you have on digital side that differentiates your products and you're able to come on better pricing in the market. And the second one is on the US, what has incrementally changed, sorry I, may have missed that, but what has instrumentally changed between Q2 and Q3 in the U.S. that has led the weakening market there? Thank you.

Henry Schirmer, Chief Financial Officer

Yeah, what has led to weakening macro is called a trade war in U.S., so we do see clients who trade in -- call it, industrial markets in industrial. They have less demand and we see that both in our franchise business as you might know Suhasini. We have a franchise business, which we also -- for us,

it's a bit of a market indicator. You also saw the BLS coming down a bit to 1% growth. On the side note, it's small, but still there was strike at General Motors and we took out people at General Motors we don't, but out of the supply base so that didn't help. So that's what happening in the U.S. so again slight weakening and at the same time, we also under invested in headcount so therefore our head count is lower than our growth compared to last year. And that's not what we like to do so better balance and so also bringing in more people as we speak in U.S. And on our gross margin digital support, so what we have is a tool in the Netherlands now rolling out to Germany, we had a consultant, can go to the client and on her and handheld iPad or whatever they can show the local labor market for the relative job they are talking about. The scarcity of that profile, they can talk about what is being paid for a profile and then they can talk to client through that and there is a pricing to adjusted to it, which in the Dutch market is the pricing tool for staffing for the government or direct tool. So that conversation is working well for us and for our consultants and its results into better pricing also early days because it's a small group in Germany, but also we see the same effects there and that's why also why Henry said we're going to roll out these tools as quickly as we can, but to be able to do that, we need a certain dataset on local labor markets, that's the only -- the only inhibition for the speed of rollout that you will see this tool showing in 2020 in many more markets.

Suhasini Varanasi, Analyst

Thank you very much.

Tom Sykes, Analyst

Yeah, good morning everybody. First question was just on the gross margin. Presumably, you can say your gross margin isn't just the difference between what you're building out and what you're paying the terms or just your markup because of some non-wage costs in there, so I was just wondering what was happening till non-wage costs your ability to manage sickness, sort of absence in any other sort of non-wage cost that going in, and what might be the movement in those year-on-year and perhaps kind of where they are versus history, if you like, as a proportion of sales of those who come down are they similar to history or where do we stand on those place?

Unidentified Speaker

Yeah, Tom, good morning. If anything, it sort of strengthens our margin story because what we see in Germany, also because of the downturn, we see actually more sickness. We see slightly more sickness in the Netherlands that's also because low unemployment and you put people in, but the pressure in workforce this is high nowadays. So it's not like we have a better margin because of our normal course for a company wage costs went down is actually the for us. Our margin is higher because of the pricing tools, the different business mix, yeah and diligence on walking away from clients who don't want to pay. So, yeah (Multiple Speakers)

Tom Sykes, Analyst

Okay. And then how big are non-wage costs as a proportion of sales, please -- I am trying to think about that, is it just a ballpark in aggregate as the impact on gross margin?

Henry Schirmer, Chief Financial Officer

I cannot even give you the proceeding to ballpark as in, let alone the ballpark. So it's not the...

Tom Sykes, Analyst

Why is that?

Henry Schirmer, Chief Financial Officer

Why is that, yeah, it is not something we manage on a global scale. It's very different country per country. It's also driven by legislation. So, it changes every year in every country. So it is to, I can talk to you about fess in certain markets, way more in the Netherlands, but it's a big bag of course that we tightly managed, but it's 38 times different in 38 countries.

Tom Sykes, Analyst

So without knowing that you're still saying that it's not a benefit to your gross margin?

Henry Schirmer, Chief Financial Officer

What I said was that, where I know it where it's a big part. It actually went up so to say because of sickness so yeah.

Tom Sykes, Analyst

Okay, thank you. And then just on the growth in the staffing business, could you, I think in your annual report, you said it's ballpark 50-50 between light industrial and non-light industrial. I just wondered if you could make some comments on what, certainly in the light industrial versus non-light industrial and whether you're seeing any impacts of weakness in the clerical market, at all place.

Jacques Van Den Broek, Chief Executive Officer

Yeah, our clerical markers is okay-ish, and so it's more light industrial for us. Certainly in the U.S, so light Yeah light is very broad term but it's mostly logistics that's sort of industry is nothing too specific. As you know, we got 3.5% market share in U.S. So it's not like we are hinging on one sector.

Tom Sykes, Analyst

Right. I think just overall for your excluding in house and professional, you said it's about 50-50 light industrial versus clerical and that the moment, you're not seeing any spillover effects from weakness in manufacturing to weakness elsewhere, you're just seeing.

Henry Schirmer, Chief Financial Officer

No, not really, no.

Tom Sykes, Analyst

Okay. All right, many thanks.

Henry Schirmer, Chief Financial Officer

Okay.

Rajesh Kumar, Analyst

Hi, good morning. Thanks for taking the question. Just on the temporary margin contribution, we've seen a 30 basis point contribution on gross margin? What does that equate to in terms of like-for-like than gross margin improvement. Also could you give us some color on, say in a quarter, how many times or now that you would be seen negotiating the margin so just trying to understand how much of the margin lift you're getting is coming from the actions taken in the quarter was over the last six months. And just in terms of the competitive landscape. Have you seen any of your competitive change their tack on how they approach pricing I think other getting more competitive or, are they adopting digital solutions which make them more discipline. Any color on that would be quite helpful.

Henry Schirmer, Chief Financial Officer

Yeah, you asked some tough questions Rajesh, what we normally do as we negotiate the margin for one to one assignments. Of course, when you sign magazine. So I cannot say on a global scale what that means. What I do know is what we can measure or when we have these supporting digital tools is that per match, we see an increase in margin, so that works very well. Okay, competitive landscape is partly tough and manpower with a 40 basis point drop in gross margin. That's a lot there and but the digital tools are working well for us. Our pricing policy is unchanged as long as I can remember. We have this basis where we don't want to go under and if it's too low we just walk away, but it's not like deteriorating or anything I would call it a pretty stable environment overall from a competitive point of view.

Rajesh Kumar, Analyst

Thank you. And the temp margin, how much of EBITA. Is it similar to the 30 bps contribution or you get a bit more than that?

Henry Schirmer, Chief Financial Officer

So, I mean we are showing 30 bps because we believe it is 30 bps it's helped by extra working day, margin it is not helped this time by exceptional from growth. So I think we've laid it out as much as we can just give one more color on a value-based pricing and pricing in general, I think we make very, very conscious efforts because all our countries to put the pricing, the ability to price and decisions about pricing, it's part of our -- of our tooling for our business and we -- as we speak within our market, it's supported by digital tools, but also by just general discipline looking at pricing. And that's are doing also -- gives good returns so far.

Rajesh Kumar, Analyst

Got it. Thank you.

Maarten Verbeek, Analyst

Good morning. It is Maarten Verbeek. One question about your cash flow, which was extremely very strong in Q3 and has some of the -- part of this free cash flow being brought forward so which you should have expect in Q4 and now drop into Q3 or otherwise what are your projections for Q4 will be as strong as the last quarter for us here?

Henry Schirmer, Chief Financial Officer

Yeah. So good question, Maarten. Thanks for that, actually we have said also now in our notes that actually timing was helpful in quarter three. So we had in 2018 actually the quarter ended one day earlier. So we have now in the quarter three benefit of getting money in and paying it out actually on the first day of October that has been effect also in quarter four then. So if we just look at the -- how the calendar last 2018, we end it on a Monday, 2019 year we will end on Tuesday, Tuesday is quite a

material pay day for us so there will be some readjustment coming through, but that is -- we're not take away from a very, very big cash flow in quarter three we had.

Maarten Verbeek, Analyst

So which quantify the impact in Q3?

Henry Schirmer, Chief Financial Officer

No, we don't do that.

Maarten Verbeek, Analyst

Okay. Thank you.

Jacques Van Den Broek, Chief Executive Officer

Yeah, Jess. Thank you very much. Thanks everybody for joining this morning, and we are on our way to finish the year as well as we can, and I hope to see you on the road shows or wherever we meet. Bye-bye.