



## **Q3 Results 2015**

Thursday, 29<sup>th</sup> October 2015

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**Robert Jan van de Kraats, CFO, Randstad**

Good morning, ladies and gentlemen. Good morning to the third-quarter 2015 results announcement of Randstad Holding. I am here together with Jacques van den Broek, Arun Rambocus and also the other troops supporting us.

We're going to talk about the third quarter of 2015. And, just to remind you, the third quarter in terms of the seasonal pattern is the most relevant quarter of the year, typically, closely followed by Q4. But if we have acceleration Q4 might even be more important. But the second half of the year typically is the stronger part of the year.

I'm going to take you through the presentation. We'll move to slide 5 right away which summarizes the key items of what happened in the third quarter. Revenue grew by 5.4%. July came out a little less strong than anticipated. Through the quarter we did see growth being more or less flat. One should be reminded that the differences are marginal.

Topline growth broadly stable across most countries. And if we look at the month of October, we look at our volumes in October, we see that continuing. The gross margin improved by 30 basis points to 18.8%. And also perm fees are clearly showing continued outperformance of the market by 13% growth.

Underlying EBITA, the margin came out at 5.0% for the quarter with an ICR, an incremental conversion ratio -- what it expresses is the drop-through of additional gross profit into EBITA -- at 59%, which is a strong result.

ROIC at 16.2%, I think, Arun, that's almost a record level, but excellent performance here, And also working capital measured in terms of DSO here improved again, so solid working capital continued.

Global MSP spend grew significantly, as did RPO. And, finally, Randstad has announced the acquisition of RiseSmart, an outplacement innovator, effectively an online outplacement provider. We're going to provide you with an update on this at the Capital Markets Day on November 17.

Slide 6, the P&L, I'll elaborate on most of these items mentioned here. One thing that I'd like to draw your attention to, if we look at the last four quarters, the column L4Q of 2015, you can see that over the three quarters 2015 and the last quarter 2014 the EBITA margin now stands at 4.4%.

Organic growth came out at 5.3% over the last four quarters, so this resulted in an EBITA percentage that is in to the range that we have communicated at the end of last year.

On slide 7, the context in which we have operated, topline stable in most countries and please remember that we typically see erratic trends. It's never linear here. That is what you see reflected here. Stable growth in the majority of the European countries. The Netherlands and France both in line with market, and Italy accelerating, whereas, it had already been at a very significant level.

Also in North America growth continues. We are clearly above market in our US staffing business, but the Canadian market is more difficult and that is consolidated into our numbers in North America. And we continue to see growth in most of our emerging markets. So, effectively, we have three cylinders running; North America, Europe and Asia.

If we look at North America on slide 8, we do see stable growth in US staffing. And I'd like to add to the headline here... excellent returns and probably even record returns. Revenue grew by 4% compared to 5% in the second quarter. But please remember that the comparison base has toughened a bit.

Permanent placement fees continue to do well and GP also improved by 9%. Our staffing and inhouse business grew by 6%. US professionals focus on gross profit; this was up by 3%. Randstad Sourceright, net fee growth of 17%. It continues to do well.

And then the Canadian market being more difficult, where we did see a decline, but still being ahead of the market, again excellent returns. We have absorbed some restructuring here, some adjustment in the back office in the US and also some adjustment throughout the organization in Canada, in order to deal with the difficult, tough market circumstances. And, of course, the RightSmart related M&A charges.

France was in line with the market on slide 9. We think that continues also into October, the growth that we see in Q3. But please remember that in Q4 last year we arrived at minus 8%. So, the comparison base is going to be relaxing here, so that should result in pretty solid growth of the fourth quarter.

Our combined staffing and inhouse business grew 3%. This is the mostly industrial. Professionals also up and our perm business across the board in the Group, but also in France grew by 23%, a significant amount.

Gross profit improved also and our EBITA margin came out at 5.8% for the quarter. We are balancing client profitability here with market circumstances and it's always an art to accrue properly for the revenues and subsidies in the French market.

The Netherlands we see solid growth on tougher comparisons, but continued solid returns in the Dutch market. Revenue now 10%. Q2 was 15%, but then we explained to you that complex calculation of working days affected that number. Perm also continued to be successful at 28% and the comparison base became 4% tougher. Staffing and inhouse doing well, 9% growth, broadly in line with the market.

I would also state professionals excellent continued growth, even higher now at 20%. We have now combined all the businesses since earlier this year and it continues to do well with a solid EBITA margin. So, this is a relatively tough market. Randstad has adjusted timely to what happened in the market. And the move to more efficient delivery models and the back-office adjustments facilitated this and result in continued good returns here.

Germany returned to growth, which is excellent, and that combined now with an EBITA margin of 5.7% now for the quarter. Revenue grew by 2% and if we look at the underlying volumes we are approaching zero here. So, one way or another we are moving into positive territory. Perm growth 15% compared to previous quarter; it continues. Gross profit by 2% up now. And there SME is clearly outgrowing the large-client segment. This is the result of our micro strategy on this segment.

Slide 12, Belgium, strong focus on profitability; also best-ever profitability in this quarter, 6.1%. Revenue up 1% -- staffing and inhouse growth, that is. And we have also concluded that we need to focus on our commercial activities to get closer to market here. Gross profit up by 6% due to strong focus here.

Slide 13, Iberia. Stable growth. A solid story. Growth was 8%, in Spain 12%. Professionals continued to grow at a very high pace at 68%, perm at 32%, and we continue to invest in further growth here. In Portugal we have a strong focus on client profitability. There are opportunities to grow, but we want to make sure we choose the right one. We do see strong growth in our call center business. And the EBITA margin remains very good.

UK, on slide 14, improved profitability, which is our key focus in this market. Revenue up just a little bit. Gross profit 2%. And we do see good performance in construction and education. The EBITA margin improved to 2% now.

Slide 15, other European countries, we continue to see a solid growth here and good returns. Italy, revenue growth 20%, as I mentioned before, acceleration. Penetration increased clearly in this market, but also the focus on specialties and perm continued to pay off here as well. Switzerland, not easy as a story but our growth was flat and that brings us ahead of a difficult market given the currency situation. Poland, growth accelerated again back to 7% here. And we see a continued impact here of candidate scarcity and also the fact that we grew fast last year. Solid profitability was already mentioned.

Slide 16, rest of the world, stable growth here. And we also said we would strengthen our focus on profitability and that is starting to come through here as well. Japan grew 6%. That's comparable to the previous quarter. And perm clearly very successfully at 63%. Australia also continued to show growth, but very important in these markets is the perm growth and that also arrived at 11%. Overall Asia growth was at 10%, which is India and China both double digit. We continue to invest in growth in both countries. Latin America up 15%, roughly equal to the previous quarter. And EBITA margin now to 1.5% as a result of the shift in focus.

The financial results on slide 18. Our income statement is pretty straightforward, nothing special. You can see again our relatively low finance cost due to the fact that net debt has reduced further and interest rates are effectively only the spreads that we are paying. The tax rate also stable more or less at 26%, 27%.

Then performance by the revenue categories on slide 19. Staffing has clearly arrived in the zone that we believe is appropriate. It should ideally return between 5% and maybe 7%, so we're clearly in the zone. But it still indicates potential for further improvement.

Inhouse, it's really at the very high end of the zone, excellent return 5.3%. We should keep it going. And then professionals, clearly improving to 5.7% but still a way to go. Some profitable growth in the Dutch business contributes here. Also the IT segment in the US is doing quite well.

Gross margin bridge on slide 20, this is from last year to this year, 18.5% last year, 18.8% this year. The temp margin is more or less stable. The mix is -- that is offsetting some pricing pressure. Perm fees are clearly contributing here, as you can see, 0.2%. And then our MSP and RPO business is also successful here.

Operating expenses, this is where we compare sequentially from Q2 this year into Q3 of this year, as well. OpEx are up slightly. I think this was well managed throughout the quarter. Favorable foreign-exchange impact clearly.

The FTE growth in North America and Europe is clearly justified by growth in those specific markets. But there is also some seasonal pattern here where we have relatively low cost additional employees to go through this exciting third quarter. And we continue to make investment in our emerging markets.

Slide 22, net debt now at EURO 453 with a leverage ratio of 0.5 and return on invested capital, which I mentioned, at 16.2%. I think successful data here.

And then the Q3 2015 free cash flow on slide 23, most important -- or the best way to look at this is the last four quarters 2015, because timing differences have an effect on each and every quarter. So, as you can see a solid improvement again over the last four quarters. This quarter specifically we invested more in growth, had a little less benefit from the payables, but across the board nothing special. Net acquisitions include the acquisition of RightSmart.

That brings us then to the outlook on slide 24. The organic revenue growth in the quarter was 5.4%, September at 5.7%. Again, this is marginally different. Volumes in October so far indicate a continuation of the year -- of the trend.

The gross margin we expect to be more or less sequentially stable. No significant working-day impact in Q4 compared to last year. And for Q4 we expect a minor increase in operating expenses measured on an organic basis.

And if we look like last quarter at the organic -- so at the underlying exit rate, the exit rate for the month of September, then these are as follows. The Netherlands was around 10%, France is north of 3%, Germany at 3%, Belgium it's low single digit. UK at 2%. Iberia continues at 11%. North America 4%. Rest of Europe at the high 14%. Rest of the world at 11%. And if you add that all up it is around 6%.

On the next slide, 25, we confirm that we believe we're on track in terms of the ranges that we discussed at the Capital Markets Day between 4.4% and 4.6% for this year. I already showed you that the last four quarters bring

us at the 4.4%. So, hopefully, the next quarter is going to support that further. And then for 2016 we still believe we're on track to get within that range indicated, the 5% to 6%.

We now move to Q&A, so, operator --.

## Q&A

### Operator

Thank you. Our first question today comes from Chris Gallagher of JP Morgan. Please go ahead.

**<Q - Chris Gallagher>**: Just a few questions around market conditions in terms of how competitive it's becoming from a price perspective (inaudible) seeing in the Netherlands and in France, for one of your peers recently flagged it was getting more competitive.

**<A - Jacques van den Broek, CEO, Randstad>**: Let me do France and then Chris, I think, will do the Netherlands. France is not getting more competitive. It's a pretty stable environment. And, as Robert Jan stated, we do expect a sequentially higher growth rate in Q4 in France. And we believe to be above market currently based on the success certainly of our inhouse but increasingly our SME growth. So, that's good.

**<A - Chris Heutink, Executive board Member>**: So, and in the Netherlands, yes, as Robert Jan already stated in his opening statements on the Netherlands, competitive environment also due to some market concentration. So, we see that we made the right decisions last year in order to restructure and to get our organization ready for it. I will tell you a bit more on the development in central delivery on our Capital Markets Day in the coming November 17 in London. So, we are heading up with this. And we had some investment, of course, in terms of growth and also in terms of marketing. So, we're pretty positive actually, about the picture.

**<Q - Chris Gallagher>**: Okay. And one more question, if I may, just around costs in France around health insurance coming in from 2016 and also a change in the welfare tax in April 2016, how do you see that impacting margins next year?

**<A - Jacques van den Broek>**: Yes, that's early days. That stuff is not so much finalized. We see a mix of some negatives and some positives and we're still figuring how that will play out. So, we'll keep you posted.

**<A - Robert Jan van de Kraats>**: Thanks for limiting yourself to two questions.

**<Q - Chris Gallagher>**: Thank you

## Operator

Next question comes from the line of Matthew Lloyd, HSBC.

<Q - **Matthew Lloyd**>: Good morning, gentlemen. I'm going to go for one question. In France, the pickup in perm, is that mainly CDD fees? Or is it what as an Anglo-Saxon you would think of as perm, as in proper permanent jobs?

<A - **Jacques van den Broek**>: Yes, this is what you as an Englishman you would call proper perm, absolutely. We currently have around 1,000 CDDs, CDIs, in our temp base. That's based on the new development. We definitely have roughly one-third of that market. So, we are taking a proactive approach which is logical because as Randstad we've lobbied for a long time for this possibility in this French market. So, we like it. So, this is really pure perm fee growth which, as you know, is a Group strategy for us.

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

## Operator

Next question comes from the line of David Tailleur, Rabobank

<Q - **David Tailleur**>: Yes. Good morning, gentlemen. First of all, a follow up on the Netherlands where the margin's coming down a bit. Do I understand correctly it's mainly driven by gross margins slash pricing pressure out there?

And maybe you can also give a little bit more color on the underlying temp margin development. Is that more driven now by mix? And is pricing still, let's say, feasible as it has been going Q1, Q2?

And my second question is on the incremental conversion ratio. If I heard that correctly I arrive still slightly south of 40%. The last two quarters it was also slightly below that level. Do you still expect a level of about 50% next year if you would assume a reasonable growth? Thanks.

<A - **Chris Heutink**>: David, this is Chris coming back to your first question. Yes, of course, if there's a competitive market with market concentration there's also some margin pressure. But it's also due to the investment we did in marketing & FTE.

<Q - **David Tailleur**>: Okay. And do I understand correctly then that, let's say, your SG&A increase is quite close to your top-line increase?

<A - **Chris Heutink**>: I think it is, yes.

<Q - **David Tailleur**>: Okay, thanks.

<A - **Robert Jan van de Kraats**>: And on the ICR we try to measure it over the last four quarters. But if you look at the last quarter and then make the right adjustments to look at it on an organic basis it's 52% for Q3.

<A - **Robert Jan van de Kraats**>: And Arun will give the details, David, if you want to.

<Q - **David Tailleur**>: Okay. So, then the answer on my second question, or my follow up on that is, yes, for 2016? That's still your ambition probably?

<A - **Robert Jan van de Kraats**>: Yes

<Q - **David Tailleur**>: Okay. Thanks a lot, guys.

## Operator

Next question comes from the line of Marc Zwartsenburg, ING.

<Q - **Marc Zwartsenburg** >: Yes. Thank you. Good morning, guys. I want to also follow up on the Netherlands, following up on David's question because you have, say, EUR20m of cost savings. I see professionals is going up 20%. You mentioned gross margin pressure and investments in marketing and SG&A. But how should we see this, going forward? How much of the cost savings is in? And will the operational leverage improve in the Netherlands because I do not get the impression that the gross margin pressure is that severe if I look to underlying ABU data or trends at UHG, for instance, keeping aside some company specifics. That's my first question.

And then last year around the same time you updated the market on the cost saving of EUR60m to EUR70m. How far in the process are we? Is everything in? Should we expect still some more? Could you give us an update on that one? That's it. Thanks.

<A - **Robert Jan van de Kraats**>: I'll introduce it briefly and then Chris can give you some details. But the way to look at the Dutch performance is that whatever we do is directed toward securing a 6% to 7% return at the bottom. That is the strategic approach underlying here. Chris?

<A - **Chris Heutink**>: Yes. And, as you probably -- I don't know it was in the presentation, although I think Robert Jan mentioned it, we are looking, of course, at incremental conversion ratios which are pretty much above 60%. And we are actually heading for that also in combination with what Robert Jan was saying, the 6% to 7% target in combination with a decent incremental conversion ratio of above 50% but probably even above 60%. That's where we're targeting at and that's actually what we are doing.

Coming back to your comment on the Yacht professionals business, as you know, we started this actually as of April the new structure. So, you will see some -- we see a lot of growth. But, we need to work a bit more on the conversion of growth into gross profits, so that will happen in time.



<A - **Robert Jan van de Kraats**>: On your second question --.

<Q - **Marc Zwartsenburg** >: Maybe, sorry to interrupt, is it then that you -- because of the strong growth acceleration in the beginning of the year in the Netherlands and Yacht professionals starting in April, that we should expect even operational leverage to improve? Or will you invest it all back in the business to keep within the 6% to 7% business? I'm trying to get a feel for the potential in the next, say, four, five quarters.

<A - **Chris Heutink**>: As I also told you in the last meeting we, in professionals business, have still a lot of room to invest because we changed our -- completely changed our model. So, we will still invest and stay within this 6% to 7% range.

<Q - **Marc Zwartsenburg** >: Okay. Good. Clear. Thank you.

<A - **Robert Jan van de Kraats**>: On the cost savings, Marc, the target was for EUR60m to EUR70m divided over two years, this being the first year completely on track. And please note that next to the Dutch restructuring we also have just announced some adjustments in the US and Canadian organization. And earlier this year we announced the restructuring in the German organization. So, that's coming through.

But the largest chunk of the first year of savings was already in as from the beginning of the year and we are working on next year's reductions. So, I think we're completely on track here.

<Q - **Marc Zwartsenburg** >: So, there's still some to come, in 2016?

<A - **Robert Jan van de Kraats**>: Sure, yes.

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

<A - **Jacques van den Broek**>: Yes. At the same time Robert Jan will also in our Capital Markets Day brief you upon our mid-term cost initiatives.

<Q - **Marc Zwartsenburg** >: Okay, it sounds good. I can't wait. Thanks.

<A - **Robert Jan van de Kraats**>: We neither.

<A - **Jacques van den Broek**>: I'm in sales, yes, so I'm making this an attractive program, yes. Next.

## Operator

Next question comes from the line of Hans Pluijgers, Kepler Cheuvreux.

<Q - **Hans Pluijgers** >: Yes, good morning, gentlemen. I have two questions from my side. First looking at the US, there you're looking to grow ahead of the market particularly, maybe talk us through the quarter, what the

trends are and especially why do you believe you are, let's say, are ahead of the market and are there still additional measures you could take to improve your performance there?

And then looking at Belgium, there we saw some weakness in Q3. You indicated that you've taken some additional measures and also focused on profitability. Could you maybe elaborate a little bit on what you're doing and how you expect it will work out in the coming quarters.

**<A - Jacques van den Broek>**: Yes, I'll take those. Well, our story on how we get to grow above market and our US staffing is a very well run business on the basis of what we call field steering.

What we also see is certainly in our staffing portfolio in the US in increased success of Inhouse, although this is already quite a chunk of the portfolio. It's still a huge market out there and the more consistent we get into conversations with clients the more attractive and the more potential we see for this. So, we've opened up quite some new branches in Inhouse and that also fuels the growth in staffing, so good to see.

On a more general market note here we have around EUR350m of franchise business which are basically also of course staffing entrepreneurs and they are also to a large extent in the blue collar part of the business and we also see good growth there. Just as a general comment market developments in America.

Belgium, there's two things in Belgium. The first is Q3 in Belgium is specifically also a quarter where you see a lot of students working. This is pretty low margin stuff, we used to take that on board years ago and then we saw a significant drop in our gross margin into Q3. We became more hesitant but that also means that our growth against market is subdued in Q3 but it translates into a great and actually for the quarter record profitability in Belgium, so we're happy there.

But of course we're never fully happy and we're not happy in Belgium yet with our overall commercial pressure in the market in Belgium. Actually it's our only large business which is below market, we're not happy there, so we hope to see this improve throughout the year.

**<Q – Hans Pluijgers >**: But are you going to take any additional measures? Can you a little bit elaborate on that, what you're doing?

**<A - Jacques van den Broek>**: Yes, yes, it's very academically, we talk a lot about this and then the end effect is sell more, and that's what we're going to do. If you compare the activities, commercial activities of Belgium per person to other markets there's room to grow, so in my view our Belgium colleagues should, well, roughly double their commercial activities and then we know they'll get improvement against market. We've seen it in the Netherlands, we're seeing it in France, we see it everywhere.

**<A - Robert Jan van de Kraats>**: More calls, more visits.

**<A - Jacques van den Broek>**: We can't make it more complicated than that.

<Q – **Hans Pluijgers** >: Okay, clear, thanks.

## Operator

Next question comes from the line of Konrad Zomer, ABN AMRO.

<Q – **Konrad Zomer** >: Hi, good morning gentlemen. The first question is on the Netherlands. Can you share with us if your high growth in the professionals business had a positive impact in the EBITA margins for the country?

And secondly, can you share with us what your performance of the professionals business in North America was in terms of margins please?

<A – **Chris Heutink**>: The first is a yes.

<Q – **Konrad Zomer** >: Yes.

<A - **Jacques van den Broek**>: The second -- no, that's not a yes because it's an open question. We are, against market we're very happy with our staffing performance in the US, as just explained. We do feel that our overall US portfolio which is a spread portfolio shows a more nuanced picture. Very happy with our Sourceright performance, our engineering business, but that's a small business doing well. Our IT business is doing well but we do think there's upside.

And our financial business should definitely see some upside. This market is still very good, as in high-single-digit GP growth and we're below that. We've changed management, new management is in place and we hope that we also will turn the corner there. So yes, there's still upside in our professional portfolio, which, by the way, is a very profitable portfolio so in that sense we're very happy, but from a top line point of view we do see there's still some potential.

<Q – **Konrad Zomer** >: Okay. If I quickly come back on the Netherlands, I noticed you added about 180 people in the third quarter versus Q2 and that explains some of the margin pressure, if you like. But I still struggle to fully understand why your EBITA margin in Holland came down Q3 year-on-year because the perm business grew very strongly, had a positive impact, the professionals business grew strongly, had a positive impact. You say it's partly pricing pressure but you do not sound too concerned about it so I still struggle to understand why your EBITA margin had to come down 20 basis points year on year.

<A – **Chris Heutink**>: Yes, then I have to repeat myself probably, but I think what you, probably you missed it, but there was also a total investment in marketing, you saw I think the campaign for Yacht professionals business which is actually the first time we did a TV campaign. We did a broad marketing campaign on Randstad, I think you cannot have missed it, so there was also a lot of investment in that part, not only in FTE.

<A - **Robert Jan van de Kraats**>: But underlying the point is, indeed it's a competitive market, we have early responded to that by making sure we adjust our delivery and our back office and the overall target is between 6% and 7% EBITA margin and that's where we are and that's where we should remain.

<Q – **Konrad Zomer** >: Right okay. So just to conclude, pricing pressure in the third quarter was not different from pricing pressure in the first two quarters of the year.

<A - **Jacques van den Broek**>: No, not really, there seems to be sort of a structural shift in the Dutch business whereas large contracts are heavily fought, we know that. We've changed our delivery model, we now have, we mentioned that to you but, again Chris is going to elaborate, 50% of our business doesn't come from the branches anymore, that's not to say it's all in these delivery models, but we can cope.

So it's all about increasingly conversion as in what do you get in gross profit and what do you get as a bottom line return. So we can weather that storm and we'll see and if you're smaller in the Netherlands I think that's more of an issue. But, again, we're happy with the returns, we're growing 10% guys, so that's 7,000 people more at work in the Dutch marketplace at Randstad, very happy, at great returns.

<Q – **Konrad Zomer** >: Okay, thank you.

## Operator

Next question comes from the line of Yves Franco, KBC.

<Q – **Yves Franco** >: Good morning, gentlemen, some questions from me. Some have already been asked but maybe elaborate more on Belgium evolution going forward. If you say you're shedding some student businesses can we expect a decent return to growth again in the fourth quarter of the year?

Secondly on savings and the restricting you've done in the US and in Canada, maybe elaborate what has specifically been decided there? And, if I understand well, this is not included in the EUR60m to EUR70m savings plan, this is some extra again. Thanks.

<A - **Jacques van den Broek**>: Yes again, Yves, on Belgium it's a matter of time so we exited the holiday period in Belgium with a lot of commercial aggressiveness and the heat is on and then how quickly we can see the benefit, that's always tough to say, we always say two or three quarters.

<Q – **Yves Franco** >: Yes okay, but normally the biggest hit has come, yes, obviously in the third quarter with the holiday and increased student activity I guess.

<A - **Jacques van den Broek**>: Yes, well, we always were a bit hesitant that if we didn't take the student business then we would run the risk of damaging the relationship with the client. Well, we take a little bit more risk there and we don't mind that too much.

<A - **Robert Jan van de Kraats**>: Yes and the cost reduction programs, the restructuring programs in the Netherlands, in Germany, in Canada and in the US all relate to the EUR60m to EUR70m savings program overall which is decided half in 2015, the other half in 2016. And the ones that we have just announced, the US's back office and Canada is more across the board also including front office, because we have difficult market circumstances.

<Q – **Yves Franco** >: Can you maybe elaborate more on the market circumstances there in Canada, Robert Jan? It has been flattish previous quarters already Canada, what's currently happening there in the market?

<A - **Robert Jan van de Kraats**>: Well, it is a negative and our strategy is to make sure that we adjust our organization adequately, that's exactly what is coming through now. So it is clearly a difficult situation. Revenue was down by 4%, we are ahead of the market as a whole and we're making the necessary adjustments.

<Q – **Yves Franco** >: Okay, guys, thanks.

<A - **Jacques van den Broek**>: As you know the Canadian economy is largely driven by oil and gas and that's -

<Q – **Yves Franco** >: Oil, yes indeed.

<A - **Jacques van den Broek**>: sort of spreads throughout the country so they are in a recession.

<Q – **Yves Franco** >: Yes, okay. Thanks a lot

## Operator

Next question comes from the line of Matija Gergolet, Goldman Sachs.

<Q – **Matija Gergolet** >: I have a question on UK and rest of the world first of all. You seem to have sacrificed a little bit of growth for the margin's sake, so in the UK a significant improvement of margin from a relatively low base, similarly in the rest of the world. I just wanted to make sure if you can, on one hand, elaborate a little bit on the UK margin improvement and particularly whether you see that margin improvement sustainable and effectively there is no more to go hopefully going forward.

And a second question would be just on the Group overall growth rates, I appreciate you might have sacrificed a bit of growth for the sake of margin but, so we were told that the exit rate at the end of Q2 was 6.7%, the exit rate in September 5.7% but for the quarter as a whole it's only 5.4% only. Well, it implies August in the 4% or less level. Is that right? What happened in the middle of the quarter? Thank you.

<A - **Robert Jan van de Kraats**>: I'll take your last question first. I'll try to shine some light on this. July was not as high as we were anticipating when we announced the results, we only know the volumes which are indicative not precise and we didn't know the revenues at the time, because this was late July.

So in your analysis you should include that the month of July came in below expectation, the month of August was not the dip that you were describing and September was slightly better.

<Q – **Matija Gergolet** >: Okay thank you. And on margins in the UK and rest of the world?

<A - **Jacques van den Broek**>: Sorry, yes, so your first question was two questions, but that's okay, we don't mind too much. The UK you've seen a stable improvement in the UK. We're not firing from all cylinders yet in the UK so we're not happy with all of our business. Having said that, the UK will still, in terms of overall profitability remain below Group average we think, although we're definitely looking to continuously improve also the results in the UK as you've seen in the last two years.

The rest of the world, no absolutely, we announced the fact that we would like to have a more balanced approach between growth and profitability. Also because when you get in a certain market above 50% growth, then it's tough to get good induction programs with your candidates, you have high attrition rates yourself, so you don't build a stable business as such. Where at 20%, 30% growth, there's good induction, good ramp-up of productivity and overall you create a longer term stable business. So that's what we're doing and that also comes through in the improvement of the results, as you can see.

<Q – **Matija Gergolet** >: Okay thank you. Thank you very much, clear.

## Operator

There is another question from Marc Zwartsenburg, ING.

<Q - **Marc Zwartsenburg** >: Yes, thank you, I've got a follow-up. First on the US, Manpower mentioned in the light industrial it sees a weakening, if you look to your most cyclical and GDP sensitive segments in the US or region, do you see any slowdown that makes you a bit more concerned on the cycle in the US? That's my first one.

And then a follow-up on -- let's take this one first, sorry.

<A - **Jacques van den Broek**>: Yes. So, Marc, I think it's more a follow-up question for Manpower than for us on why they see the weakness. We do see a pretty stable environment still in what we call industrial. Again, Inhouse drives most of the growth here but our franchise business, again, sees good returns. So for us it's still a good market, actually we would like to see more growth in the professionals business as such where the market is also good and we're still a little bit below market. So that's more our internal improvement. So still good, still good. Not increased growth but stable.

<A - **Robert Jan van de Kraats**>: And we had a tough comparable so --

<A - **Jacques van den Broek**>: Yes, yes.

<Q - **Marc Zwartsenburg**>: Exactly, yes. Then on your outlook on the OPEX line, a modest increase versus Q3 ForEx, can you perhaps give a bit more color on the ForEx impact, what you expect there?

<A - **Robert Jan van de Kraats**>: More or less the same, so flat. That's not going to have a big impact then, Marc.

<Q - **Marc Zwartsenburg**>: Okay good, thank you. That's it.

## Operator

The next question is from Matthew Lloyd, HSBC.

<Q - **Matthew Lloyd**>: Good morning again, gentlemen. Two quick questions. One for Robert Jan, what is a small- or medium-sized acquisition in terms of spend?

And a second question, more operational, in the RPO and MSP contracts what's your self-fill rate doing? Is that stable or are you beginning to lose some of the, taking the fee for doing the administration but somebody else is doing the filling?

<A - **Robert Jan van de Kraats**>: Yes, so small, mid-sized acquisitions is max a few hundred million.

<Q - **Matthew Lloyd**>: Good, thank you.

<A - **Jacques van den Broek**>: Yes, the self-filling question is a very, call it a UK question because MSP -- MSP and RPO are different businesses and, again, per region they're also different. So MSP in the US is very much just MSP, managing suppliers, it's a pretty stable fill rate ourselves. RPO is where we fill everything, so growing that business is, that we fill it there because RPO is where you really take care of the recruitment arm of the client and by and large you fill everything yourself.

What we see in Europe is we see more blended models, MSP and RPO sort of blends together, but that's early days. So it's not, the growth of course which was very, very high is still high but of course those comparisons, if you will, are getting a little bit more difficult. Certainly in the US it's not so much as a result of less filling ourselves that the growth is slightly lower than it was in Q2.

<Q - **Matthew Lloyd**>: Can I quickly follow up, that's very interesting. When I speak to clients I know you have a big contract with and I ask them what percentage of the total hiring goes through the agreement I never get an answer higher than 70% and yet you just said everything. Is that everything that you see or, because I've tried to speak to --

<A - **Jacques van den Broek**>: That's depending where the client is located and if it's an MSP or an RPO client.

<Q - **Matthew Lloyd**>: Okay, thank you.

<A - **Jacques van den Broek**>: So that's tough to answer that question as such. Of course we always aspire to fill as much as possible but sometimes there are contractual limits, absolutely.

<A - **Robert Jan van de Kraats**>: Yes and the clients don't put everything into our MSPs themselves.

<Q - **Matthew Lloyd**>: Thank you.

## Operator

There is a follow up question from the line of David Tailleir, Rabobank.

<Q - **David Tailleir**>: Yes, two more quick ones I would say. Just also on M&A Robert Jan, looking at your statements in your interview, it seems to be that you were quite concrete, so talks are already pending and ongoing? If you say you expect takeovers in the coming quarters?

<A - **Robert Jan van de Kraats**>: Have you got your second question first, or what do you want?

<Q - **David Tailleir**>: Well, maybe this one first.

<A - **Robert Jan van de Kraats**>: Okay. Yes, I was asked what we are doing in this space and I said we constantly have teams working on bolt-on acquisitions and disposals. We have to look at quite a few targets before we are able to have one come through, so there's a lot of work involved. We have discipline on the economic side which means we're looking at a few but then expectations are too high and we can't meet them, so we're constantly working on a pipeline of, again, small and mid-sized targets and hopefully I would say we're going to see something coming through in the next few quarters. Nothing imminent but the next few quarters hopefully we're going to see some successes there.

<A - **Jacques van den Broek**>: We're working more on M&A, on acquisitions more than disposals by the way.

<Q - **David Tailleir**>: Okay, yes, that's what I would expect.

<A - **Jacques van den Broek**>: We just disposed our Sri Lankan business which was very tiny.

<A - **Robert Jan van de Kraats**>: It was a huge disposal, yes.

<Q - **David Tailleir**>: Okay. Then a second one on France, the margin coming down a bit despite growth. What kind of topline growth do you need to further see operational leverage and margin expansion?

<A - **Robert Jan van de Kraats**>: David, remember last year in Q3 we discussed that assessing the accruals of the subsidies in terms of what goes to clients through pricing, it was a difficult one. We were relatively



conservative at the early stages and we had some changes to those accruals which have an impact at the GM level, gross margin level. So take that into account when looking at those numbers. And I think in general in France we should be able to show solid ICRs as well.

<Q - **David Tailleur**>: Yes, despite passing on some of the CICE subsidies.

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

<Q - **David Tailleur**>: Yes, okay. Thanks a lot, gents.

## Operator

There is a further question from the line of Konrad Zomer, ABN AMRO.

<Q – **Konrad Zomer** >: Hi, yes, just one follow-up question on the gross margin. In the Q2 outlook for Q3 you thought that the gross margin was likely to come down sequentially. Today we've seen that the gross margin actually went up sequentially. Can you tell us which country or what part of your business particularly outperformed your own expectations in terms of gross margin?

<A - **Jacques van den Broek**>: Yes, the temp margin has been stable from Q2, Q3. I would say the seasonal pattern is typically also impacted by the Belgium student workers which was elaborated upon earlier in our call, that we have made the choice to not focus on that segment, so that helped the temp margin to remain better than normal in a seasonal pattern.

<Q – **Konrad Zomer** >: Okay, thank you.

## Operator

There is a question from the line of Piethein Leune, SNS Securities.

<Q – **Piethein Leune** >: Yes, Piethein speaking here at SNS. Just one question on France. You were talking indeed in the previous quarter that you wanted to speed up commercial activity a bit and when we were talking about passing through some of the gains of the subsidies. If you're now looking at your growth in the quarter, how does that relate to your own expectation because I would have maybe expected a bit more growth on the back of those commercial stronger activity that you wanted to initiate?

<A - **Jacques van den Broek**>: Yes, we are definitely initiating these commercial activities, we do see between 20% and 30% more sales in our branch business that is translating into SME growth. The September outlook or the September result in terms of topline underlying it's a bit stronger so we do expect, as Robert Jan said, an increasing growth rate in Q4, because of easier comps but also because our business as such is strengthening. So yes, early signs but it looks good.

**<Q – Piethein Leune >:** Does that mean that the French market as a whole, I appreciate the easier comps but are we still not seeing let's say the oomph growth that we saw, let's say, for instance, earlier this year in the Netherlands? Do you have any clue what could drive let's say stronger growth in France than what we've been seeing so far? It looks very much like a muted recovery in France.

**<A - Jacques van den Broek>:** Yes, well, there's one element which is in the French market which is not doing so well, that's construction, which is roughly 23%, 24% of the market, so that doesn't help. I wouldn't compare in this case the Netherlands and the growth in the Netherlands with France. They are quite incomparable markets. They have quite different situations also as an economy. As you know, the Dutch economy has been underperforming for quite a while and picked up, the French economy is not nearly as bullish as the Dutch one, so I don't think that's a comparison.

But no, our performance against market is improving so, again, on that and also on the comparison base we are very optimistic about the sequential growth rate into Q4 in the French business.

**<Q – Piethein Leune >:** All right, that looks good. Thanks.

**<A - Jacques van den Broek>:** Yes, we also think that looks good.

**<Q – Piethein Leune >:** Thank you, Jacques.

**<A - Robert Jan van de Kraats>:** Thank you. Operator, that is the last question I guess?

## **Operator**

This was the last question, we have no further questions on the line.

**<A - Robert Jan van de Kraats>:** Okay then, I'd just like to say thank you very much for participating and also remember our Capital Markets Day in London, November 17. We've made it rather efficient, it's just an afternoon and we are going to elaborate on the most relevant issues on that date. Thank you so much for joining us. See you soon. Bye.

<Q - Toby Reeks>:

<A - Arun Rambocus, Director Investor Relations, Randstad>:

<A - Linda Galipeau, Member of Executive Board>:

<Q - Nicholas de la Grense >:

<Q - Paul Sullivan >:

<Q - Tom Sykes>:

<Q - Matthew Lloyd >: