



Q1 Results 2016

Tuesday, 26th April 2016

Robert Jan van de Kraats, CFO Randstad

Thank you very much. Good morning, ladies and gentlemen. Welcome to our first quarter results call 2016. I'm here together again with Jacques van den Broek and Chris Heutink, my colleagues in the executive board and also Arun, Investor Relations and some other of my colleagues supporting us in this call. I'll take you through a couple of slides to explain the first quarter results, and then we'll get to Q&A at the very end.

I'll move to slide five right away, which shows the highlights of this first quarter. Revenue up by 5% organically, gross profit up almost 4%, and top-line growth of 6% in Europe, 3% in North America and 5% in the Rest of the world. Please keep in mind that Q1 was roughly 2% tougher than the previous quarter in terms of comparables. Most of the growth we see in the world is in the manufacturing segment. Also, one should keep in mind that seasonally, Q1 is the weakest quarter of the four quarters in the year.

The gross margin was stable year-on-year at 18.4%; permanent placement fees continued to grow and now 11.5% of gross profit. Underlying EBITA improved by 10% to 3.6% margin, and important for us, the organic last four quarter incremental conversion ratio or the drop-through rate of gross profit into EBITA arrived at 51%. A 35% improvement in net income, and a very healthy ROIC. DSO, again improved. The Proffice acquisition was consolidated in the result for two months. The Randstad Award was conducted successfully, very successfully in 25 countries, surveying 5,000 companies, an excellent moment to connect with our clients. And the last four quarter EBITA margin now stands at 4.5%, which is a 30 basis points improvement.

On slide six, the last four quarters, stable mid-single-digit growth. We could even say the last 10 quarters, consecutive quarters, it's a bit boring. As a pattern, it's not typical in any way if one looks at the historical economical patterns, but this is what it is 10 quarters now of consecutive mid-single-digit growth.

You look at the organic growth, it stands at 5.9% over the last four quarters. The gross profit growth also over the same period at 5.8%, which is an improvement of 20 basis points, certainly supported by perm growth now over the last four quarters at 9%. And this, then combined with operating expenses of 4%, arrived us at the 51% incremental conversion ratio.

On slide seven, you can see the trends. The green line is going down a bit, but that is the Rest of the world. If you look at the European line, that is the sort of reddish line here, it grew 6% compared to 7% in Q4. The comparables have improved to last year already, so we see good contributions from France and Germany here, very helpful. North America was up 3%. The Rest of the world is increased by 5% and the Group [ph] assets (3:51) grew by 5% on the 2% tougher comparison base. Also, this quarter included Easter, which in the previous year was in the second quarter.

North America, on slide eight, US Staffing gaining market share again. Revenue growth up 3%. Some impact of Easter here coming through perm fees improved and also GP was up by 4%. And if you look at the underlying contributions here, perm growth 6%, a little lower. The US Staffing & Inhouse business, revenue growth of 6%, that also had an impact on GP. US Professionals is flat. All of these elements explained the GP improvement by 4%. Pricing was good in the American market. Randstad Sourceright, good increase of spend under management. And Canada, a very difficult market, revenue flat, slight improvement compared to the previous quarter. A very nice contribution EBITA, 4.1%.

Slide nine, the Netherlands, impacted by payrolling. We do see very healthy growth, revenue at 6%.
But

if you look specifically at the Staffing & Inhouse business, then – and one excludes the payrolling business, then it is 13% year-on-year growth year. Most of the government payrolling, which is where a client, the government has decided to take people on their own payroll and terminate this business, so it's client-specific. We continue to see pricing pressure in the market. The Professionals business, it was up 5% compared to 21% in the previous quarter. That requires us to boost commercial activities again, but also there is an impact here from the restructuring which took place last year, and also the comparables have been more challenging. EBITA margin now stands at 4.8% versus 6% in the previous year. We're looking at making some adjustments related to the reduction in the payrolling business and we continue to invest in growth, 13% growth is rather significant.

In the French business, on slide 10, we do see growth continuing ahead of market, nicely 9% up. Combined Staffing & Inhouse stands at 8% compared to 10% in the previous quarter, Professionals improved to 12%, and perm continues to show very nice growth at 27%. Gross profit, up by 5%. We do see like – something like cocktail of some elements here, pricing pressure on the one hand. We have new insurance that hits us which we cannot completely offset by charges to clients. We have some compensating subsidies that are starting to come in towards the end of the quarter. EBITA margin improved, also explained by the release of an accrual.

In Germany, improving growth and profitability. Germany also after quite a few quarters of either no growth or negative growth, it's now coming through again. Revenue growth at 5%. Gross profit improved even more, 7%. Our focus through activity-based field steering on the SME segment shows clearly results, which also are coming through in the Netherlands, so higher growth of the SME segments. EBITA margin at 3.7%, showing excellent operating leverage.

Belgium; profitability improved again, 5.6%, that's a very nice level of profitability, but there's a cost of some revenue growth because we lost some large clients due to pricing. These were specific customer profitability based choices that we have made, but we continue to focus ourselves also on catching up with market again. Gross profit was flat, again, the result of clients profitability focus.

Iberia, Spain and Portugal, revenue up 8%, Spain at 9%. Very good growth in the Professionals space continues, perm also very nice at 36% that we continue to invest in further growth. Also, Portugal improved again after some quarters with clear choices on customer profitability now at 4%, and the result is that also gross profit was up 10%, 3.9% EBITA margin.

Now, the UK, step-by-step, over the last quarters, we've seen improvements coming through. Revenue up by 1% now, but even stronger at the gross profit line. EBITA margin stands at 3.1%, which is operating leverage coming through. Sourceright clearly has a contribution in the UK.

Slide 15, the rest of Europe. Italy, it nicely continues to grow double digit, 11%, with a strong focus on specialties and perm. Switzerland was a bit difficult over some quarters last year, but it continues to improve now at 5%. Poland, double digit, solid. And in Nordics, revenues were stable with consolidated Proffice, and the EBITA margin now at 2.6%, which is roughly in line with the contribution of Proffice.

Rest of the world, moderated growth across the board. Japan improved from 1% to 3%, and perm also as a result of our specific micro strategy that you also see in other countries, nice growth at 38%, mostly in the Staffing segment. Australia and New Zealand showed growth, continued at 5%, but a nice contribution also here of perm. Asia shows growth of 5% in line. Latin America, as a result of customer profitability, somewhat reduced growth here. EBITA margin, just above 1%.

The financials in slide 18. This is – when you summarize all the previous comments, this is what comes out of it. Foreign exchange impact roughly zero at the EBITA line, which compares to a positive of €5 million in the previous year in the first quarter. We have some one-offs here, mostly M&A-related. And then amortization and impairment, a bit lower, and that is a consequence of amortization of certain M&A-related elements, and we just have a lower level of amortization here. Net finance costs and associates, that's a plus. That's nice. This is always a combination of interest rates, but the interest rates are low, the debt is low. And we have some adjustments, and valuation adjustments here, as well as some currency impact. Last year, that was a negative, the currency element. Now, it's positive. It's bookkeeping, but it is a positive. The tax rate, relatively stable and in line with our previous announcement.

Performance by revenue category. Staffing improved EBITA margin from 3.2% to 3.6%, strong focus on delivery models. This has been on our agenda for quite a while and it continues to be very important. Inhouse, we continue to transfer clients from Staffing to Inhouse. It's the best way to serve our large clients, lower prices, but high level of volumes and high productivity level. The fact that the EBITA margin is lower here is purely the result of improved cost allocation here. We made some adjustments. Staffing & Inhouse are very much together and cost allocation is more art than science. Professionals at 4.5% EBITA margin, a nice growth. We have a very strong focus on the verticals, IT, finance, accounting, and engineering here.

The gross margin bridge, we earned from 18.4% to 18.4%, so we have a positive from perm, and a negative from HRS, which includes the Dutch government payrolling business, not spectacular here.

Slide 21, operating expenses. As you can see, a big red. M&A, that's not the M&A cost, that is the addition of Proffice to our consolidation, and this is the two months of expenses that came in here. So, in line with our announcement, a slight decrease sequentially in the cost base. We continue to invest across the board where we see growth.

Net debt now on slide 22 at roughly €300 million, and a leverage ratio of 0.3, nothing specific. Working capital remains highly efficient, and at the bottom, you can see an improved return on invested capital. Underlying – if you make an adjustment for the timing of the dividend announcement, that's still the case. But the dividend was already taken out of invested capital in Q1 this year due to the Annual General Meeting taking place in March. So, that reduced the invested capital base slightly. which was not the case last year. But even if one makes adjustments then we still see an improvement in the return on invested capital.

Free cash flow 2016, on slide 23. Rather standard, nothing spectacular. What you see here is the outflow related to the acquisition of Proffice. I'd like to point out here also that typically in our seasonal pattern, again Q1 is the softest quarter of the year. Q2 includes the outflow of dividends and payment of holiday allowances. So typically at the end of Q2, we have a higher debt than at the end of Q1. And then that improves again in the second half of the year.

That brings us to the outlook on slide 24. Organic revenue was 5% in Q1. In March, revenue grew by 4.6%, which is better than slightly better than February, and it included Easter. Volumes that we measure every week in terms of people working, in early April indicate a continuation of the exit rates of the quarter. If I look at the exit rates by country, then looking at the Netherlands, it shows a mid-single digit growth rate. In France, we see high-single digit. In Germany, mid-single digit. In Belgium, flat. In the UK, low-single digit. In Iberia, high-single digit. In America, low-single digit. But that, I should point out, is roughly in line with the average for the quarter. Rest of Europe, high-single digit. And the rest of the world, mid-single digit. So that brings it to roughly 5% in the month of March.

Sequentially the gross margin is expected to be seasonally higher and there is expected to be a small positive impact of the fact that we have a bit more working days in the second quarter, which is driven by Easter, which falls into March this year versus April last year. In terms of operating expenses, we expect moderate seasonal increase as we continue to invest in growth.

Then reflecting a bit on the margin ambition and the scenarios to get there, we started to share these with you in 2014, November, at the Capital Markets Day. And in this slide, we have included some boxes, which provide an update as per today. So this bowl, the bucket, the basket, the ice bowl, whatever, it shows the balls that do drive the performance of the company. The blue one, cost, we announced that we were going to some significant cost savings all on track. We've added one last year, announcing that we're going to improve our IT spend through the implementation of shared service center. That project has now all been prepared in detail and it's going to be implemented as from July. That will mean we're going to gradually transfer data centers and data communication into the shared service center and we'll see some benefits coming in gradually as from 2017. Activity-based-field-steering focused on improved growth and productivity, clearly helping us. Activities up 6%, which helps us to improve the conversion of our activities, so making sure we make calls that convert into business, business that converts into orders and so forth. If you look at the right hand side, you see that this field steering has helped us to drive our permanent placement business, our professionals and our SME. In the SME we see double digit growth. In perm we see 7% growth. Very helpful. Then the orange ball, when we discussed this last time at our capital markets day in November 2015, we put in a scenario of having high single digit sales growth in 2016, which then together with the activities in the other balls, might bring us to the low end of the 5% to 6% range. That's not what we have seen over the last quarters. This high single digit sales growth, not at all. We have now seen 10 quarters of low to mid-single digit sales growth. So if we put that into a model as a scenario and look at the analyst consensus, which currently stands at 4.8%, it is not impossible to get there. So as a scenario, we have no insight beyond what is happening in April. But as a scenario, just looking at it mathematically, that's not an impossible scenario.

That brings me to Q&A. And I would want to ask you to limit your questions to two max. Thank you so much.

Q&A

Operator

[Operator Instructions] Our first question today comes from Chris Gallagher from JPMorgan. Please go ahead.

<Q - **Christopher Charles Gallagher**>: Good morning. Two questions, the first around the pricing environment specifically in Netherlands, France, and Belgium, could you give us the details on how you've seen that evolve? And then the second, on the UK, have you had any discussion with clients with the upcoming referendum likely to slow decisions and what's your view on the outlook? Thank you.

<A - **Jacques W. van den Broek**>: Yeah. Let me take – good morning, Jacques here. Let me take UK first. Of course, these discussions always lead to a bit of uncertainty and certainly never helps economic development. You'd see the top-line in UK being rather modest to flat, so it probably plays a role, yeah, but always tough to really scientifically ascertain, of course. Pricing environment, we're market leaders in the Netherlands, the market leader in Belgium, and we – well, that's already six, seven years ago – decided not to play the pricing game in France, although we're the number three in that market. So, that means that we make our choices. Robert Jan already alluded to it. Certainly, in the Netherlands, we've seen one of our competitors. I won't name names, but the will be Japanese soon, being quite aggressive last two quarters on price. And then we take our decisions that leads to either discontinuation of client relationship, so less growth, or renewal of a contract at a lower price,

and at least to a slightly lower margin. And Belgium is a bit the same. Belgium is – you can see it very clearly, a top-line which is quite modest. We were nearing the market in Q4. And again, we took some decisions not to renew contract, Q1. You do see it in our numbers that Belgium is currently a country with the highest earnings, and compare that to competition, and you'll see the difference.

<Q - Christopher Charles Gallagher>: Thank you.

Operator

The next question is from the line of David Tailleux of Rabobank. Please go ahead.

<A - Robert Jan van de Kraats>: Thank you.

<Q - David Tailleux>: Yeah. We are back. Good morning, gentlemen. First of all, on the Netherlands, EBITA margin declined. Could you maybe provide a little bit more color on the impact of pricing pressure and the payrolling business?

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

<Q - David Tailleux>: And then secondly – sorry. And secondly, on France the impact of the one-off. Could you quantify that? Thanks.

<A - Robert Jan van de Kraats>: I'll take the French one first. As I said, it's a bit of a cocktail. So, on the one hand, we have pricing pressure. We have the additional cost of insurance which is partly offset by some additional subsidies. On top of that, we have improved productivity, clearly, because of the high level of growth. And then the remainder relates to this cost accrual, which explains the biggest part of the improvement, but not all. I think that will guide you well, David.

<Q - David Tailleux>: Yeah. That's enough. Thanks. Thanks. And then on the Netherlands maybe?

<A - Jacques W. van den Broek>: Yeah. On the Netherlands. So, the Payroll business, it's a €350 million business, and we stand to lose a little over €100 million due to the decisions the government is taking. And this is a highly leveraged business because it's highly automated, and we think we're going to lose anywhere between €8 million to €10 million EBITA. So, that's just something that happens that does – then that hurts our EBIT and also our top-line growth, of course. And then there's a few other things, one is we are – we carry our own cost in sickness of temps. We've been doing that for quite a while. And that also goes up and down a bit. We've seen a flu epidemic in the Netherlands in Q1 and that hurts our EBITA. This is non-recurring, so that helps. Second one is in Great English, the 'transitie allowance' which is sort of a severance for temps which now comes in, into Q1, and it also has an effect, probably, will have an effect throughout 2016 and then in the comparisons because it's a pretty stable number will probably fall away. Yeah. And then the last there's pricing pressure, yeah.

<Q - David Tailleux>: And if that's roughly equally spread these items or...

<A - Jacques W. van den Broek>: The pricing pressure is a bigger bucket than the sickness. And the other one I just explained, you can probably calculate that one yourself as a percentage, and the €8 million to €10 million.

<Q - David Tailleux>: Yeah. That's a fair guidance, Jacques. Okay thanks a lot to you both.

<A - Jacques W. van den Broek>: And then maybe good to mention, in essence – another one, of course, is the funny mix development. So, we take out cost, so we invest in growth, and in the Dutch business we do see 13% growth in the rest of the market, and we're not cutting cost there because, yeah, the growth is very, very, very good. But in this payroll business we cannot take out costs due to the high leverage. So, that makes it a bit tough from a short-term cost steering perspective but it will weed out over the year.

<A - Robert Jan van de Kraats>: Yeah. We're looking at making some changes but that'll take a bit of time.

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

<Q - David Tailleux>: Yeah. That's fair. Thanks a lot.

Operator

And the next question is from Paul Sullivan of Barclays. Please go ahead.

<Q - Paul D. Sullivan>: Yeah. Good morning. Just last one on Holland. The perm performance was fairly weak. Is that is that a transitional issue and will that wash through as we go through the rest of the year or is that a drag that we should see continuing further a little bit longer? That's the first one. And then second one on M&A and the pipeline, maybe you can give us a little bit more color on your thinking in terms of future acquisitions or how you see the pipeline shaping up for the rest of this year. And in this choppy environment, does that put you off doing deals or actually does it encourage you to do more deals?

<A - Jacques W. van den Broek>: Okay. I'll take the Netherlands first. Perm is a mixed picture. It's actually quite good in our two Staffing companies, again, from a low end. But, there, you do see the trend we've seen in quite some markets is that we do want perm in Staffing to grow better at, training our consultants to sell perm off the same profiles they sell temping in the market, that's been working very well for us. In our Professionals business, we do see a bit of – call it post-integration blues. We integrated three companies in the Netherlands into one Professionals company that went surprisingly well. We did it in Q2. Numbers in Q3 and Q4 were quite good. But at the same time, we also changed roles a bit, so we went from 360 consultants selling and servicing like we have in Staffing to split desks as we have in other Professionals businesses. So, we lost a few people on the front end. And as you know, perm then immediately reacts and, therefore, perm on Professionals is lower than to be expected. But, again, this will weed out over time. We're taking measures to improve growth again in improvement in our Professionals business in the Netherlands. But for Q1, it was not as good as the last quarter, as Q4.

<A - Robert Jan van de Kraats>: On M&A, our strategy is unchanged compared to the previous quarters. You're right. The market is sometimes a bit difficult. We can find targets, but not always at the right price. Randstad has some fire power, so we are willing to use it, and you could see that coming through. Last year, in the second half, we acquired RiseSmart in the placement space, and this is the first quarter, we've acquired Proffice, which is nicely contributing here. And actually, Proffice provides sort of the profile that we really like. It comes in with expanding our Staffing footprint, and it comes in with expanding our Professionals footprint. And these two are the priorities across the globe. We're using a DCF approach, where we typically look at modeling it according to various scenarios, but they all include a downturn to ensure that we don't just sort of base ourselves on hockey sticks and that drives our willingness to pay a certain price. So we continue to have a pipeline. We're working on it. And we're rather happy with the pace we're making. And hopefully, we're going to see some more coming through in the rest of the year. Size of transactions will be mid-sized. So typically, that will be anywhere between €100 million at the lower end and around €500 million at the high end.

<Q - Paul D. Sullivan>: Very clear. Thank you.

Operator

Next question is from the line of Josh Puddle of Berenberg Bank. Please go ahead.

<Q - Josh G. Puddle>: Yeah. Hi. Good morning. The first question is on the Netherlands. How much of your business there remains exposed to the government? And are there any further areas beyond payrolling, which you think might be at risk? And then secondly, on Germany, you saw a decent acceleration in Germany in Q1, and that's despite the timing of Easter. What do you think is driving that acceleration and what trends have you seen so far in April?

<A - Jacques W. van den Broek>: Yeah. On Germany, we see good acceleration. We're very happy with the fact that Robert Jan already mentioned it, but I'd like to mention it again, is that in Germany, our SMEs now are really outpacing our large clients, which is definitely a first in Germany ever. So, that makes us a stronger company. Yeah. We've given you the exit rates, I think that's good enough in terms of transparency. So, we're happy with our German performance. On the exposure of the Dutch business here in the Netherlands with government is 15%. We don't expect this business to be at risk. The payrolling business is really like a central government decision that has been taken. I'm not commenting on the motives for this, but yeah, it happened quickly, and this business has been quickly

disappearing. So, these people are being hired. We don't expect that in the future the real temping part of the government business will be impacted. We don't see any signs there.

<A - Robert Jan van de Kraats>: And this should be fully implemented in Q2.

<A - Chris Heutink>: No, first May actually.

<Q - Josh G. Puddle>: Okay. Great. Thank you.

<A - Chris Heutink>: An it won't have any impact on other business lines. It's only payroll.

<Q - Josh G. Puddle>: Thank you.

<A - Robert Jan van de Kraats>: Okay.

Next question is from the line of Nicholas de la Grense of Bank of America Merrill Lynch. Please go ahead.

<Q - Nicholas de la Grense>: Good morning, guys. Two questions, please. Just a quick follow-on on Germany. I'm just wondering whether you could give an indication of how much of the 5% was down to pricing versus volume. And then a question on the Proffice acquisition. It was – had a positive gross profit impact, so gross margin impact is a bit negative on the EBITA margin as we would expect. Is there scope to take synergies out of that business? Do you think that's going to be kind of a positive contributor to EBITA margins eventually? Thanks.

<A - Robert Jan van de Kraats>: Yeah. The German breakdown between price and volume, that was your first question. We think that it's roughly half-half. Volume contributes half and price contributes the other half.

Your question on Proffice, you're right. It indeed provides us with a positive contribution at the GM level, the gross margin also because it comes in with a substantial contribution in permanent placement. At the EBITA level, it's roughly at par with what we saw rest of Europe.

Your question about the synergies, of course, there will be some synergies, but the main focus here is on driving

growth. The company has been on our radar screen for the last 10 years. We always found it too expensive. It then showed deteriorating results, and just when it started to come back a little, we were able to agree on a transaction. So, we'll jointly try to drive growth here, which is the main focus, especially in the Swedish markets, and in the Professionals space in the Scandinavian market.

<A - Jacques W. van den Broek>: Maybe to add a bit of color, there's also like what we would call concept synergies. So, we definitely feel there's scope in their blue collar business and part of their white collar business to also implement our Inhouse concept and, therefore, increase conversion. We do feel – probably this is not a 2016 thing, but the Swedish market certainly provides enough potential to have this business performing at group level in terms of EBITA. Of course, the Norwegian part, which is the smaller part, is a bit hampered by the oil and gas development. So, that remains to be seen.

<A - Robert Jan van de Kraats>: Yeah. Which was included in our DCF analysis.

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

<Q - Nicholas de la Grense>: Okay. Thank you very much. It's pretty helpful.

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

Operator

Our next question is from Toby Reeks of Morgan Stanley. Please go ahead.

<Q - Toby W. Reeks>: Good morning, guys. It's very good to hear you've all survived the flu epidemic. Could I ask two questions? One is, on the Inhouse business. Is there a natural limit for growth in that business? How much further is there to go? And, I think, you talked about margins or when you are talking about margins, you talked about cost allocation being more of an art than a science. Could you sort of talk a little bit about that? What is – what do you think is your natural margin there? And then secondly, on France, there's a lot of talk in the press and, I guess, around sort of the politicians talking about potentially becoming more aggressive gains in temps through subsidies or through taxation, could you comment around that, please?

<A - Robert Jan van de Kraats>: It's very tough to talk – to comment on politicians who talk in a newspaper.

<Q - Toby W. Reeks>: I can imagine.

<A - Robert Jan van de Kraats>: You've heard us talk about this before, but no problem to reiterate. The French market has been always – they're always – subsidies have always been part of life. They're quite stable. There seems to be nothing more permanent than a temporary measure. On CICE, it's up to and including 2017, there's going to be elections in 2017, regardless of who wins these elections, of course, we don't think immediately something will change, let's say, up to and including 2017. And then, who's going to take away this. The overall sentiment in the French market on CICE is that it works. So, unemployment is not really going down, but our market is growing. And if that continues, then normally, unemployment should go down. That is recognized, so they do regard this as a system that works. So, the socialists won't take it out, but then, will the other party take it out, but that's bad news for the private sector. So, we'll see. We'll see. But – yeah, it's still almost two years out.

<Q - Toby W. Reeks>: I think there's sort of more sort of thinking that the CICE was there to create low-pay permanent jobs rather than temporary jobs, and that's the issue. And I think Les Echos have been talking about increasing the costs on temporary contracts and decreasing costs on permanent ones. Do you think that's all just posturing and the reality is we don't know where we are. And I don't agree if CICE is unlikely to go. It's just how it's allocated might change?

<A - Jacques W. van den Broek>: You never know. What you are just stating is something that never works. So, if anything, this leads to a lot of worse regulated jobs. So, let's not hope they put that system in. This never works, in no country.

<A - Robert Jan van de Kraats>: And very often the language and actions are different. Your point on Randstad Inhouse services today is roughly 20% of our revenue base. We see significant room to grow that further. We have quite a differentiated pattern in our own company. Very high share of the German revenues comes from Inhouse whereas other countries are much lower. So, we still have a way to go in most of our operations. But we also can see the expanding this Inhouse concept. We have a significant presence in the call center space, but it might even go further in the clerical space, and even we are looking at expanding it in the Professionals space. But it's just one of the delivery models. We have other options as well, for example, central delivery, which has been explained at the previous Capital Markets Day. Also, in the Netherlands, we serve large clients with Inhouse, but we could also do through central delivery building a team at a central point, and then supplying that to the client without interfering with the extensive branch network. So, it's one of the delivery models.

<A - Jacques W. van den Broek>: And one very promising here to mention is also what we call Randstad Corporate Services. So, Inhouse is the single site – single profile or limited profiles, mostly starting at the bottom end to meet ends of the pyramid. Randstad Corporate Services is named corporate because it's mostly at headoffices. So, it is a single site, but multi profile, multi. service. We have a little over 30 locations now in the U.S. And effectively, if you look at the people we deliver, it's mostly professionals. So, we think this is a very promising model because clients increasingly don't want to work with 40 suppliers, 50 suppliers and professionals. The basic MSP model is also a bit old here, and RCS provides what RIS also does. So, we take care of the workforce and provide a mid-term to long-term view on how this develops including employee branding, productivity of people, and automation of the transactional part of the service. So, we do think that's very interesting. So, in a way, this is Inhouse for professionals.

<Q - Toby W. Reeks>: Okay. Sure. And then that comment around sort of allocation of costs, could you please talk about that a little bit, please?

<A - Robert Jan van de Kraats>: Yeah. I think to simplify that, the margin ambition with our Inhouse business model stands at between 4.5% and 5%. We've been around 5% for quite a while. If you look at the last four quarters, we're now at 4.9%. The previous last four quarters in 2015 was 4.3%. So, that comes through nicely. And the cost allocation remark that I've made is, how do you allocate cost in a business that is rather integrated because growth of Inhouse is delivered through mostly through the branch network? So, we develop a client in the branch network, and then transfer the client when the client has grown to a certain level, then we transfer it into the Inhouse structure. And so allocation of head office cost, for example, and in the restructuring in the Netherlands at the beginning of last year, we looked at it again how that worked out and now we made some changes which we believe help us

to set the cost price better. And as a result also, the reporting is impacted. Nothing really big. But deciding on how to allocate cost, as I said, is more art very often than science. But we think that's art.

<Q - Toby W. Reeks>: Okay. And to be clear, that's taking some cost out of the branches, putting that into the Inhouse area. So, is that right?

<A - Robert Jan van de Kraats>: We chose the other way around. So we've reduced the return on Inhouse by allocating a bit more of the cost to Inhouse.

<Q - Toby W. Reeks>: Yeah. From the networks. Yeah.

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

<Q - Toby W. Reeks>: Okay. Thank you.

Operator

The next question is from the line of Marc Zwartsenburg of ING. Please go ahead.

<Q - Marc Zwartsenburg>: Yeah. Thank you. Good morning, guys. I want to come back on France, on the cost accrual. Robert Jan, I think that you mentioned that most of the increase in France, I presume then talking about EBITA, is driven by this cost accrual. So, is it fair to assume that the cost accrual release was around €5 million then in the quarter and can you confirm that it is indeed one-off? That's my first question. And then my second question, on the Netherlands, the transition well, subsidy, perhaps, a better word, you said that will, Jacques, you mentioned will have an effect in 2016. It will fall away. Can you give us a bit of an indication how big in terms of basis points on the margin for the Netherlands that transition subsidy was, say, for instance, in 2015? And then perhaps a final one, if I may. On the trend in March and April, how reliable is that 4.6% on March, that working day adjusted and the first indication on April since there's so many holiday impacts in there, the Easter timing, how reliable is that number? Can you perhaps provide a bit more color on that? Thank you.

<A - Jacques W. van den Broek>: Okay. I'll do the first – yeah, the markets really know the transition subsidy because we're paying it.

<Q - Marc Zwartsenburg>: Okay.

<A - Jacques W. van den Broek>: Not a transition subsidy, no, transition is a severance for long-term temps if you don't immediately find a job for them. We think it's around 20 basis points. What I was trying to say it's a bit like what we've seen in Germany. So, in the comparables, it will weed out at the end of 2016 because we do think it's a pretty stable number. It has to do with your mix of people. Of course, we're managing our own people to give these people as quickly a job as possible. But, yeah, sometimes you do need to pay this severance. And it's not a problem because it's the law, but it's 20 basis points probably for the rest of the year.

<Q - Marc Zwartsenburg>: So, it's a subsidy to the government, that's what it is.

<A - Jacques W. van den Broek>: Yeah, you could also call it tax, but then we have a lot of them.

<Q - Marc Zwartsenburg>: All right.

<A - Robert Jan van de Kraats >: On your question on France, I explained it's the cost sales. So, we have the pricing pressure, the increase in insurance costs and the subsidies and the productivity improvement, and that offset effectively the previous elements.

<Q - Marc Zwartsenburg>: Yeah.

<A - Robert Jan van de Kraats >: And then delta in the margin was mostly the result of this accrual release, but your number is a bit too high. But most of this is...

<Q - Marc Zwartsenburg>: And it's one-off.

<A - Robert Jan van de Kraats >: It's one-off, yeah. Go ahead.

<Q - Marc Zwartsenburg>: Okay. Good, good. Thanks.

<A - Robert Jan van de Kraats >: We bet. Marc, keep in mind that we always have one-offs in our business. So, we have released this because we accrue and then a decision is made, or we meet certain requirements and then we pay less. So, this is the name of the game in our business.

<Q - Marc Zwartsenburg>: Yeah.

<A - Robert Jan van de Kraats >: On the March-April trend, the 4.6% impacted by Easter, so that makes it – that it should be a little higher. And we also looked in detail at the volumes in April, which gave us a comfortable feeling about sharing the 4.6% with you. We're not worried by at this point in time.

<Q - Marc Zwartsenburg>: Okay. Again, can you perhaps give us a bit feel for the comps through the quarter?

<A - Robert Jan van de Kraats >: You mean last year?

<Q - Marc Zwartsenburg>: Yeah.

<A - Robert Jan van de Kraats >: Marc, I thought you have all these details.

<Q - Marc Zwartsenburg>: I have a feel, but I just want to get a confirmation on that.

<A - Robert Jan van de Kraats >: What's going to be important is the Dutch market in May. As you might remember last year, we had the 5th of May, which was officially a holiday. It turned out to be a day when most people worked, except the government.

<A - Robert Jan van de Kraats>: Yeah, last year was 5% , 9%, 6%.

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

<A - Robert Jan van de Kraats>: That's the May thing...

<A - Jacques W. van den Broek>: Yeah, so that's the May thing, so take that one out.

<Q - Marc Zwartsenburg>: Yeah. All right. Okay. Thank you very much, Jacques.

Operator

The next question is from the line of Hans Pluijgers of Kepler Cheuvreux. Please go ahead.

<Q - Hans Pluijgers>: Yes. Good morning, gentlemen. Two questions from my side on the U.S. First of all, looking at the general staffing side, slight deceleration in growth. Could you give some indications on the developments by – let's by interview segments and what's manufacturing doing, and the other segments through the quarter? And what do you see also with respect to the length, the average contract length for temps in that segment? And secondly, on the Professionals side, revenues flat. Yeah. Were you actually working on to improve the performance of professional business in U.S? Again, I think, the number is a little bit disappointing. Are you, let's say, going to take some additional measures here? What do you expect going forward on this side, on your professional side?

<A - Jacques W. van den Broek >: Hans, I'll take your last question first. Growth in the U.S., you said, it's a bit disappointing. Yes, we agree, it could be higher. We've made changes in the past. Linda is not with us today, but she's working hard on getting our field steering organized properly. We also, in the meantime, integrate – continue to integrate part of the back-office. So, we feel we are pushing the right buttons, but success is coming through relatively slowly.

<A - Robert Jan van de Kraats >: Yeah. And it's always a bit tough because when I tell you the sectors in the U.S., you will relate this to the market, but we have a whopping 3% market share in the U.S. So, I wouldn't take what happens in our sectors as an indication for the market. You do see in the ASA numbers the market numbers, there's a slight slowdown in this market. With us what's mostly doing well still is our blue collar part. We do see but that happens. If you see a slight slowdown, transport and distribution doing with less from high double digits, we're still double digit but lower. So, it's a little bit less, but this is the third year of growth. So, we're not worried yet.

<A - Jacques W. van den Broek >: And no significant change in contract lengths in the U.S. I already mentioned that April is in line in the Staffing business in the U.S. roughly with the average of the first quarter.

<A - Robert Jan van de Kraats >: Yeah. We do see 2%, 3% wage inflation and we do see good margins. So, these are signs of, yeah, still a good market.

<Q - Hans Pluijgers>: Okay. Thanks.

Operator

Next question is from the line of Yves Franco of KBC. Please go ahead.

<Q - Yves Franco>: Good morning, guys. Yves here from Belgium. Could you maybe give us, yeah, what's going on in Germany, maybe what regulatory changes can be expected for the Rest of the year? I guess, they are talking about again some price increases in July – June-July, if you can offer some support, of course.

And then the second question, just read that the plans of the Dutch Ministry of Social Affairs imposing also an official law on the payrolling business has been cancelled due to insufficient support in the Parliament, which was as expected. Does it give some – will you now increase some marketing efforts in the private sector payrolling business to recoup some of that lost revenue given that probably there will be no stricter legislation? And how well was this anticipated by this dropout because, I guess, the Ministry already mentioned that last year, half of last year – yeah. Have you been immediately looking at some additional cost measures, or is this 1Q dropout really striking for you? And now, are you now only starting at additional measures in the Dutch business? Thanks.

<A - Jacques W. van den Broek>: I'll do Germany, and then Chris will follow up with the Netherlands. I get a rebate from the KLM on flying to Berlin. So, that's helpful. So, I don't know, there's a lot of different topics on the table with the German politicians currently. Of course, they were quite surprised with the Alternative für Deutschland, a slightly populist party, that certainly suddenly in three states got quite some votes. I think they're still recovering from that. And then, refugees is a hot topic, as you can imagine. And also, on the day with a few more other topics is, well, the regulation on temping. So, we actually don't know where it is currently. It's still in the preface of discussion, so very difficult to say.

<Q - Yves Franco>: So, no CLAs expected to come in, Jacques, in the case of 2017?

<A - Jacques W. van den Broek>: Yeah. Well, there is a moment of increase again, on the top of my head, 1st of June, which is a regular one based on the current situation. And that's an opportunity for us too. Yeah, hopefully, if we do it well, it's always very complicated. But we did well last April, and let's hope we do well again now.

<Q - Yves Franco>: Okay, thanks.

<A - Chris Heutink>: On the payroll question or the law, there's a difference between the "motie Hamer" as we call it, that has to do with the general payroll in the Netherlands. And that's where you mentioned that it's not supported by the second chamber and also not by the 'Raad van Staten'. So, that's a way, but it doesn't matter, the Minister of Social Affairs, Mr. Asscher, he announced this payroll ban for the public sector.

<Q - Yves Franco>: And it will take...

<A - Chris Heutink>: Secondly or thirdly, you asked us if we couldn't foresee it. Yes, of course, we knew that this law was or this measurement was coming in, although it's always bit of a thing, well, how they deal with it. And so, different departments are dealing with it in a different way. So, it was a bit underestimated, probably. But we were seeing it and we still see it and we make – we take our measurements.

<Q - Yves Franco>: Okay. And now that you know, Chris, that the private sector won't be impacted since the law will not be voted, will you, yeah, increase your efforts a bit to recoup or to put some of the business back into the private sector that would be logical?

<A - Chris Heutink>: Yeah. We are increasing our sales there already long time actually to compensate or support the loss in the public sector. And secondly, we, of course, react on the pre-launch measurements, which are announced and the new law 'DBA'. So, we sent out the press release, I think, two weeks ago that we are full in the sales mode also on the pre-launch impact.

<Q - Yves Franco>: And is it – can you give us a number how much of this lost public business can then be recouped on the private sector in the long term but that's probably difficult to...

<A>: Chris Heutink>: too early.

<Q - Yves Franco>: Yeah, of course. Thanks a lot.

Operator

And the next question is from the line of Suhasini Varanasi of Goldman Sachs. Please go ahead.

<Q - Suhasini Varanasi>: Hi. Good morning, everyone. Just a couple of questions from me. When I look at the growth in the first quarter, it looks like the growth has shrunk quite crazily through the months. You had 6.6% in Jan, maybe close to 4% in Feb and then improved to 4.6% in March. Can you comment on what exactly drove this? Was it just a reflection of the underlying macro in the different countries? And secondly, in North America, when you reported the full year results, I think you talked of mid-single-digit exit rates in Jan, but ultimately, you ended up with 3% growth in the quarter. So, is it the macro slowdown, which ultimately affected the growth there? Happy to share your thoughts there. Thank you.

<A - Robert Jan van de Kraats>: Well, we always have erratic growth rates. They are never linear. The comparison with the previous year plays a role, so we don't really look at it month-by-month. Of course, we measure it month-by-month, but we look at it a bit for a bit longer period of time. So, to us, this is a continuation of a trend. I have to say that, and we pointed that out, the growth in the Professionals business in the U.S. is below market and we'll offset part of that. The growth in our Staffing business is ahead of market, and that's the way we like it. So, the erratic picture throughout the quarter, I actually gave you just the Q2 last year growth rates which explained a 5%, 9%, 6%. So, that what happens, working day impact comes through this. So, nothing specific, I would say. And we don't really analyze the macro trends underlying because we've built a company that responds to whatever happens in the market.

<Q - Suhasini Varanasi>: Understand. And can you give me what is the split of Professional versus general in Staffing in the U.S. given you had such different growth rates there?

<A - Robert Jan van de Kraats>: Well, Staffing is a bit more than half, and Professionals is a bit less than half at the gross profit it is roughly equal.

<Q - Suhasini Varanasi>: Okay. Thank you. And on – yeah. Understood. Thank you.

<A - Robert Jan van de Kraats>: Thank you.

Operator

Next question is from the line of Konrad Zomer of ABN AMRO. Please go ahead.

<Q - Konrad Zomer>: Hi. Good morning. My first question is on Belgium. You mentioned several large accounts being terminated. Can you give us an idea of what the impact could be for the remainder of the year? And my second question is still on the payrolling business. If you've lost something like, let's say, €120 million, are you saying that the remaining payrolling business is not related to the government, or is that related to both the government and the private sector, but you know that it's not at risk of you losing it?

<A - Jacques W. van den Broek>: Okay. I'll comment. The largest part, the vast majority of the business, that's gone, is the government. And there's one other private line that we've not lost, but they decided to insource. For the rest, the payrolling is in the private sectors, the growth market. So, we have them. As Chris said to Yves, we don't give guidance, so we actually don't know because payrolling is sometimes a long sales cycle. How much we can recover in the private sector, we definitely don't feel that we're going to lose more. It's a very specific – yeah, you should call Lodewijk Asscher why they are doing this. So, we actually don't know, but we never comment on our clients.

<Q - Konrad Zomer>: So, we will have one more quarter where there's going to be a negative impact from the lost government payrolling business which is the second quarter.

<A - Chris Heutink>: No. That will be throughout the year, but this €100 million to €120 million you're mentioning is full year.

<Q - Konrad Zomer>: Sure, sure. Okay. I think, Chris, you also mentioned that it should all be done by the 1st of May.

<A - Chris Heutink>: No. Lodewijk Asscher said 1st of May. People had to adjust to his measurement.

<A - Jacques W. van den Broek>: This is the government department, they do...

<A - Chris Heutink>: No, they're doing it already right now, and that will continue after 1st of May into 2016.

<Q - Konrad Zomer>: Right. Okay.

<A - Jacques W. van den Broek>: Then, on Belgium, what we didn't mention, but last year, Belgium had, what is it, a little over 7% swing from Q4 into Q1. So, Q1 had a growth of a little over 6%, but Q4 was slightly negative. So, that's quite a swing. The clients were not taking – of course, we're not commenting on clients, we're not taking. But if they are and one or two are, they're big at loss making, then that doesn't help. We also had a bankruptcy of one client in the temping portfolio. That's, of course, gone then. No, that doesn't help. But, again, we have a role to play here. We're the number one and two in the Belgian market with the Randstad and Tempo Team brands. We took our decisions and it shows in our profitability. And yeah, hopefully, clients will come back once they see that it's also a different service to a different client.

<A - Chris Heutink>: We are working with the team on getting closer to market again.

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

<Q - Konrad Zomer>: Okay. Thank you.

Next question is from the line of Tom Sykes of Deutsche Bank. Please go ahead.

<Q - Thomas Richard Sykes>: Yeah. Morning, everybody. Just firstly on the U.S. and France. You've been taking market share for a little while there. Are there any particularly large contracts that are driving that? Or do you think that you can continue to take market share in those two geographies? Then, just on the MSP business or – and Sourceright. In general, it looks like your MSP businesses spend under management up about 60%, maybe from a low level, but up about 60% the last couple of years. What are you seeing happening to the rates or the percentage of spend under management that you can charge in MSP and from VMS. And I know you've always said before it's not a profit center for you, but how do you see that changing? And then just on the profitability of the U.S. – sorry if this was answered earlier in the call, but you've gone from kind of 2.8% to 4.1% over the last couple of years, but your revenues only up about 8%. Does it move to slightly high gross profit movement particularly this year? Are there any one-offs in the costs there? Or what are you seeing happening to non-wage labor costs? And just comment your SG&A or gross profit, please.

<A - Jacques W. van den Broek>: Okay. Those were two questions, Tom, or 14?

<Q - Thomas Richard Sykes>: It was kind of – yeah, two ones.

<A - Chris Heutink>: Yeah, yeah, yeah.

<A - Jacques W. van den Broek>: Okay. Good. Well, let's try to answer them then. Taking market share in the U.S. In Staffing, we do it pretty much across the board, although certainly, our Inhouse works well here. That's a double-digit growth certainly into 2015, and we're already opening quite a few new clients this year. So, you know the story, it also works well here. Definitely, not on price here, you can see our gross margin is actually quite healthy, increasing in our Staffing space. So, it's sort of the ideal combination of taking market share and also having an overall higher margin, so very happy with that one. On the French one, yeah, it's both actually. We do – so France as opposed to the U.S., France already historically, of course, had quite a lot of large clients treated through the branch. And already, for quite a few years now, we were transferring them. But more and more, we're also selling new clients. The concept is really liked, which is not a surprise if France given the cost of labor. So, our concept, which Inhouse is, that ups the productivity of people and lowers the transaction cost is a very popular contract as a way of service by the way, sorry. And secondly, when we transfer a client to Inhouse, we repopulate the branch with people who are going to work in the SME. We're also growing in the SME very healthily. So, again, that's a good combination. The margin goes down slightly in

France, but it's not so much the result of competitive pressure, it's more the result of not subsidies but the other way around, new healthcare costs that go into margin which is tough to offset. But then still, overall, a better return. But, quite happy with our situation in France at the moment because the 9% growth comes at 8% tougher comparable from Q4 to Q1, so that's quite impressive overall.

<A - Robert Jan van de Kraats>: And, Tom, on OpEx in the U.S., nothing atypical. So, we see sort of a regular trend in our OpEx, also in our non-wage OpEx. No relevant releases or additions to provisions other than sort of the typical ones.

<Q - Thomas Richard Sykes>: Okay. And how long can you continue to grow the EBIT at 20% organically on revenue of plus 3%?

<A - Robert Jan van de Kraats>: Yeah. That depends on the distribution across the country. We've made this point before when we showed you the three phases of growth, just the early stage where the incremental conversion typically could be up to 70%, 80%. Then, the second stage where we can grow a lot more with the existing base, branches and back-office. And then stage three where we need to add to the branch network, IT expenses, back-office and so forth. Well, we're still in stage two. So, we believe that we'll have so much time to go with a relatively good incremental conversion ratio, but not north of 50%. It will be at least below at the moment, and it will reduce a little further, but we still see opportunity for further operational leverage.

<A - Jacques W. van den Broek>: Yeah. Maybe to elaborate a bit here. So, we're fairly happy with our efforts in Staffing. We don't expect them to grow up as a percentage of sales. We do grow a lot in perm. So, our business mix within Staffing is also slightly enriching, so that's good. But we're – here we're really betting on growth as much as we can. The other one is more business mix. So, we mentioned that we're not happy with the growth rate of our Professionals business. So, our business mix and the growth – the mix of our growth should become more towards Professionals. This is internally because the market is quite good both in technologies and in non-tech pros. So, we should improve here, which from a market point of view, provides us with an opportunity. But I'm well aware of the fact that this is not the first time we mentioned this, so it's also not automatically going to happen in Q2 to be honest.

<A - Robert Jan van de Kraats>: And the ICR at this point in time in North America is north of 40%. If we're going to see increased growth in the Professionals space, that is a business, and, we've mentioned this before, which comes in with a relatively lower incremental conversion ratio due to commissions and bonuses.

<Q - Thomas Richard Sykes>: Okay.

<A - Robert Jan van de Kraats>: And we love it and we like a lot more of it.

<Q - Thomas Richard Sykes>: Okay. Thank you for those. And sorry. Just MSP question. You've grown really rapidly in Sourceright the last couple of years.

<A - Jacques W. van den Broek >: Yeah. Well, that's actually an interesting question and I'm not going to answer it isolated in MSP. So, what we've done is we've regrouped our business in the U.S., which is, of course, still partly the result of acquisitions we did into one, as we call it, Talent Solutions Group. In this Talent Solutions Group sits MSP, RPO, and the sales approach we have here is what we call Integrated Talent Management. So, the market in the U.S. is very silo-ed. So, you got MSP, managing contingent, going from neutral now to vendor positive by the way, so that helps direct delivery. Therefore, the return on MSP, not so much the fee we get for it, but certainly the ownership of clients and market share of clients. And then RPO is also a different silo. Tom, you know the market well. So, you know that in the UK that's a different picture. It's more integrated. And certainly, in Europe, where we are an early mover, it's also a far more integrated total talent solution. And indications are now in the U.S., but we see more and more our portfolio with clients going from MSP to RPO to RIS to RCS. So, a very promising development here which I think also favors the bigger players in the market, of which we are one.

<Q - Thomas Richard Sykes>: Yeah. And do you see that more as a profit benefit now that you have the embedded client base that you can grow the market share than you did before?

<A - Jacques W. van den Broek >: It's a good position to have, whereas we don't see the actual profitability within the fee-based MSP increase, but we do see – because we sell at more integrated than we take the client along on this journey, we do see a better return and a better market share on the client overall and more services that we deliver.

<Q - Thomas Richard Sykes>: Okay, great. Thank you very much.

Operator

[Operator Instructions] Next question is from the line of Piethein Leune of SNS. Please go ahead.

<Q - Piethein Leune>: Good morning, all. Good to see and speak to you again. I've got one follow-up on the Dutch transition payment costs that you recorded, did I know this correctly that you said that this has 20 basis points impact and that this 20 basis points will be there, let's say, until this regulation stops, not yet?

<A - Jacques W. van den Broek>: Yeah. The 20 basis points, of course, will be there until this regulation stops, probably. It's always difficult. Of course, it has to do with the overall development of the mix. But let's assume this stays, but then of course in the comparison next year, it will be out again because then it's a stable 20 basis points. So, take it four quarters and then in 2017 we're stable again.

<Q - Piethein Leune>: Okay. But still 20 basis points lower also for this year.

<A - Jacques W. van den Broek>: Well, more than a comparison, Piethein.

<Q - Piethein Leune>: Yeah, okay. No, okay. All right, okay. Now, this is something that really came to the fore this quarter because I thought this regulation already started in July 1 last year.

<A - Jacques W. van den Broek>: Yeah. But when it's started, it's not immediately people claiming it. So, it has some time before it really materializes.

<Q - Piethein Leune>: Okay. All right. Understood, understood. And then the third, regards to some comments that Robert Jan made regarding M&A and a few acquisition targets that are currently available, I mean, does that currently already has any impact on your thinking with regards to cash remuneration to shareholders?

<A - Jacques W. van den Broek>: I have to ask it, Robert Jan, do you know?

<A - Robert Jan van de Kraats>: Yeah, no. No change. Healthy pipeline. Hopefully, we're going to see a few transactions coming through.

<A - Jacques W. van den Broek>: And I hope our record dividend was satisfying for you last month.

<Q - Piethein Leune>: Absolutely, absolutely. That's been a good one. Those are my two questions. I think most of the other questions were already asked, so thank you very much.

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

Robert Jan van de Kraats

Thank you. Operator, I think this was the last question. So, I want to thank everyone for joining us in this call. We're looking forward to talk to you again on July 26 to discuss the second quarter results. Thank you. Have a good day. Bye.