

Q1 2017 Earnings Call

Company Participants

- Robert Jan van de Kraats
- Jacques van den Broek

Other Participants

- Nicholas de la Grense
- Paul Sullivan
- Toby W. Reeks
- Thomas Richard Sykes
- Hans Pluijgers
- David Vagman
- Konrad Zomer
- Rajesh Kumar
- Steve J. Woolf

MANAGEMENT DISCUSSION SECTION

Robert Jan van de Kraats

Thank you so much. Ladies and gentlemen, good morning. Welcome to the discussion on the first quarter results 2017. At this end of the line, we have Jacques van den Broek and David Tailleur next to myself and we're going to take you through some clarifying slides and then we'll move to the Q&A at the end.

Going to take you to slide 5 right away. Q1, as it says, sound organic growth continues. This was not a bad quarter at all. In Q4, we were relatively happy with the 6.6% growth that we did see in that quarter and just note, we are always adjusting for working day impact. And exactly, the working day analysis was a difficult one given the holiday season at the end of the year. It's always a bit difficult to calculate exactly which day really has impact as a working day, because it could be a working day, but not always people are at work. So the fact that we were a little soft on January, we said between 5% and 6% and now coming in at 6.4% indicates that trends have continued in a solid manner.

The gross profit was up 6.4% which compares to 5.5% in Q4. Top line grew by 8% in Europe, which is a clear contributor to the overall growth of the company and we see growth in Europe across the board and 1% in North America. Actually, one would adjust for the new classification than last quarter was a slight softer than 1%, so the least to say here is that it continues, and the 9% in the rest of the world which compares to 10% in Q4. A good thing also, perm growth is accelerating to 11%. This time, if you look at the contribution of perm in the Staffing space and perm in the Professionals segment, in the previous quarters, normally Staffing was outgrowing Professionals. This time, it's the other way around. Also, North America improved from minus 3% to 6%.

Gross margin arrived at 20.4%, which is underlying stable gross margin. And the underlying EBITA of €209 million is up 16%, an EBITA margin of 3.8%. EBITA of €209 million includes both the synergies of recent acquisitions as well as our investments in the digital space.

The adjusted net income improved by 21%, and especially free cash flow was good news; a significant improvement of 91%. We'll get back to that at the slides on free cash flow. Balance sheet; good, comfortable with a 1.1 leverage ratio. The March organic sales growth was in line with Q1, so is April. So it is a continuation of the trend. All acquisitions are well on track, and the Monster transition is in full swing.

Next slide, 6. If you look at the upper part of the P&L, our quality of earnings is always impacted by incidentals at the end of a quarter. This time, it is very little. It is below the average level; something here to note.

The Q4 organic incremental conversion ratio of 39%, it indicates a transitional year due to acquisitions and our digital investments, our organic digital investments. Balancing these investments with growing returns is essential for our management agenda. So we're putting both at the level of priority number one. Our organic growth over the last four quarters at a nice 5% now and the gross profit level at 4%.

Moving to the next slide; the regional split, strong momentum in Europe, slide 7. What you see here is that the underlying trends in the various markets. I already referred to it, but across the board, I would say good growth.

North America on slide 8, top line is picking up slightly. Revenue 1% compared to 1% in Q4. I already referred to it. Like-for-like, it's a bit above Q4. And perm clearly improved. U.S. Staffing/Inhouse revenue growth 2%, stable and Professionals from a negative 4% to negative 2%. Canada strong performance at 6%. And the EBITA margin is slightly down which is reflecting the underlying mix. If you look at U.S. Staffing compared to the market, it's holding up very nicely and adjusted for Sourceright growth, it accelerates a bit in the Professionals space. Growth in the U.S. is mainly driven by the Industrial segment.

In the Netherlands on slide 9, actually we're not unhappy with the outcome of Q1 in the Netherlands, a pretty solid EBITA margin performance. Revenue at 1% growth. In the market, we do see pricing pressure continuing, but our customer profitability focus helps us to deal with this. So the gap with the market is explained on the one hand by the fact that we still have the impact of the loss of the payrolling business with the government, and on the other hand, it is very consciously selecting contracts with clients, or deselecting I would say, because of lack of customer profitability.

Perm is up by 45% which is clearly an improvement, also the result of the strong the focus, the micro strategy that's applied here. Staffing/Inhouse business is up 2%, Professionals has improved from a negative 8% to 3% down now, and this is organic by the way. EBITA margin is now 5.4% compared to 5.1% and that is explained not just by the acquisition of BMC but it's also underlying improvement.

In France, on slide 10 we see robust growth continuing. We're also not unhappy with the current status – the political status. Hopefully, this will lead to an outcome for the French market which will strengthen the macro economy. Revenue at Randstad is at 9%. We have heard about discussions amongst our clients, but the market shows good growth so does Randstad, combined Staffing and Inhouse at 8%, but also Professionals accelerated now for the second quarter at 17%. And perm grew nicely at 37%, and this is where you see the impact of our tech strategy coming through. The EBITA margin arrived at 5.4%, and also in this market we are selective because we do see some competitiveness on pricing and we are selective following our principle of profitability first.

As I said at the beginning, France, it's nice to see our technology coming through and it's fueling both the growth in perm, but also in Professionals. At this stage, our position in the permanent placement market is number 2. We're very proud of that achievement.

Just a few words on Ausy. We've now included two months of business from Ausy and we see no disruption of the business trends.

In Germany, strong focus on the SME segment, as we have in the Netherlands, and it's paying off. 10% growth in Q4, now 9%. Again, working days are difficult to calculate. The SME doing quite nicely Staffing/Inhouse, but also Professionals up and we do see an improvement from 3.7% to 4.1% in the EBITA margin. The higher bank holiday provision is having an impact. We spread the impact throughout the year, but even if one would adjust for that, then the results show a relevant improvement. So underlying, clearly a positive development.

Most proud we are of what's happening in Belgium, slide 12. The top line growth acceleration. Good performance at the EBITA line as well. This is where you see the impact of activity-based field steering. I would say, of tight activity-based field steering. So, the steering of our commercial activities, Randstad was behind market for a while and the gap has more than been closed as we speak now.

Revenue at 10% growth, accelerating from 5% previously. So we are clearly happy with this performance. Relative to the market data, it looks as if we are a few percent ahead of the market. EBITA margin, 5.7%. As I said at the beginning, always impact of incidentals in Belgium. Last year's performance was supported by incidentals. This year, not. So the underlying improvement is clearly significant.

Iberia, another good example on slide 13. I would say excellence continued. Strong growth on higher margins. We are selective in these markets, but still coming through with 8% growth. In Spain, we are at 9%; in Portugal at 6%, and an EBITA margin improving from 3.9% to 4.2%. Get some questions on wage inflation here, but no impact. So pretty good results here.

Italy, maybe this is the third example of commercial success because it now includes Obiettivo Lavoro. You might remember that we acquired this company when it was in decline. Now that trend has been reversed and it is contributing to the growth of the company. Revenue growth now 23%, well ahead of market. Strong growth by the Inhouse segment which typically serves its industrial clients. The EBITA margin arrived at 5% compared to 4.8%; I would say a clear improvement even when excluding synergies.

Other European countries, across the board, we do see growth. Just in the UK, which has been a difficult market for not just ourselves, but in general, revenue growth was minus 4%. We don't really see any sort of direct impact from Brexit. Of course, lots of discussions here, but the other countries, Switzerland 21%. Poland doing quite well at 9%. And also in Nordics, the Proffice integration continues to be on track and you see a reversal back to growth now.

Rest of the world, overall up 9%. Japan doing quite nicely. And across the board, we see growth with a clear improvement of the EBITA margin, partly caused by the acquisition of Careo in Japan, but underlying also a measurable improvement.

On slide 17, our recent acquisitions, RiseSmart, it's one-and-a-half years ago, 2015. This is to accelerate – these are the three categories, by the way. The first category, the first column is that we are strengthening our position in the Staffing market. The second column is the strengthening of our Professionals footprint. And the third column is to accelerate our digital strategy. Well, RiseSmart was clearly contributing only to the digital strategy, working hard to roll it out. It's a small company but rolling it out in the U.S. and also beyond that. Things are underway clearly.

Proffice. That was to improve our footprint in the Staffing market. We might have put a small check in the Professionals column because almost a third of the business is Professionals. And if you look at our ambition to be EVA positive in three years, it's clearly in line, moving nicely.

Obiettivo Lavoro, it's just strengthening our Staffing footprint, but having said that it's clearly ahead of our target to be EVA-positive after three years. It's doing very nicely. The same applies to Careo. It's a smaller company but giving us a footprint in the Japanese high-end Staffing and low-end Professionals space, ahead of our target in terms of EVA.

Monster, it's early stages. We have informed you last time about our plans over the last two months. Things have, again, continued. We have streamlined the commercial side of the company, strengthened commercial management. And we have, as you can see, in the one-offs we have absorbed some restructuring costs relating to necessary changes in the organization. So, we are confident we're moving into the right direction here.

BMC, a recent acquisition in the Netherlands in the Professionals space, also clearly are underway to what's some positive EVA contribution up three years, even a bit more optimistic than just being underway. And I see the most recent one in the Professionals space in France, in Belgium, in Germany and in the U.S. that should help us to accelerate our Professionals strategy in Europe and that's very early stage of it. As I said, no negative impact on the business trends.

So then I move to the financial results. The income statement on slide 19, we've addressed most elements here now. Just the integration cost and one-off the €8 million the relates partly to M&A. So the transaction cost; we also have €7 million that relates to integration and €8 million to restructuring, of which most is Monster.

Then on slide 20, the performance by revenue category. As we announced, we would restate the categories which we have done. We have updated you on the restated 2016 numbers well in advance. And I would say, if you have any detailed questions on this, I refer to David Tailleux, preferably offline.

Then at slide 21, the gross margin bridge. This is where you see an improvement clearly, but most of that comes in because of Monster, the inclusion. The temp margin shows an impact of minus 30 basis points, which is roughly stable. So, the temp margin decline is stable. The perm fees grew 11% organically and the effect of Monster is now three months in the first quarter compared to two months in Q4. So, that also has an impact on the total. And again, also here we have a little less incidentals than the comparables of last year Q1.

On slide 21, the operating expenses bridge. This again is not year-on-year, this is sequential from Q4 to Q1. And as you see, M&A, again it's not the cost of bankers in our transactions, it's the additional cost of the acquired companies coming in. I would want to point out the €7 million organic global businesses, that's a €7 million increase and it includes a €5 million reclassification.

With the fact that we have separated the business, we have reclassified €5 million that goes from GP into OpEx because that's a more proper way of reflecting it. So, things have been streamlined across the board. So, that one should be excluded. I would say, operating expense growth a little higher than anticipated, but also reflecting the trend in business and revenues; and as I said, our continued ambition to build our digital base foundation.

Net debt stands at €1.1 million, which is equal by the way to the leverage ratio also at 1.1. I want to point out the seasonal pattern here that we typically see. So Q1, it goes up a little bit; and Q2, we pay dividends and holiday allowances. And then at the end of Q3, it always goes down towards the low point at the end of this year.

Working capital as a percentage of revenues, it includes Obiettivo Lavoro here, the Italian acquisition which came in middle of last year. And as you can see these always declining. That's exactly the ambition we have, effectively a synergy from applying the non-stop strict best practice also to this business in order to reduce DSO.

Free cash flow, that was a pretty positive result here. As you can see, 91% improvement. And let me just summarize that by saying that it is the effect of a higher EBITDA, better management of working capital as I just referred to, and different timing of cash taxes. So, I don't think that 91% is going to be the example for the full year, but we clearly anticipate an improvement here. Also, at the lower part here, you see the acquisitions coming through. And in Q2, you'll see the dividend payment going out.

So, finalizing with the outlook on slide 25. Again, organic revenue growth was 6.4% in Q1 and we see that continuing both in March and in April in every measure of volumes every week. And on that, we base this conclusion. The gross margin in Q2 is expected to be slightly up, which is sequentially driven by seasonality. This is a normal picture for Q2. We expect a moderate increase in the underlying operating expenses.

And on top of that, we will be – this is driven by the extra marketing investments that we are going to do for Monster. As you know, we are having a negative trend in the Monster revenue base when we acquired the company, and this is one of the investments we are making to change that. By the way, the Monster contribution to the Q1 results was in line with what we said before, a few million negative.

In Q2, there will be an unfavorable working day impact. So, Q1 included a favorable working impact of this amount. And in Q2, it will be reversed. So, this supported our results slightly in Q1. It will be negative in Q2. And actually, this is not – we have limited visibility in our business, but we're pretty sure this is going to happen and this is related to the Easter in April.

We also continue to expect M&A activity to be limited in 2017. And limited means, no relevant deals, for example, nothing north of €100 million. We are very much focused on making value creation come through for the acquisitions that we have completed over the last year. And we plan to host the Capital Markets Day November 21 in London, where we will certainly elaborate further on our digital strategy and the impact it has on our business.

On the right hand, you can see the qualification of the exit rates per region. And it looks, David, like a lot of pluses. But I think that is properly reflecting the trend we have experienced throughout Q1 and into April.

Thank you. We are now moving to Q&A.

Q&A

Operator

Thank you, gentlemen. Our first question is from Nicholas de la Grense from Bank of America Merrill Lynch, if you'd like to go ahead.

<Q - Nicholas de la Grense>: Morning, guys. I'll restrict myself to two. The first one was just in terms of costs. Your organic cost growth was 7% in Q1, which I think is the highest level it's been in quite a few years. I was just wondering, when you talk about moderate sequential increase for Q2, should we expect that SG&A growth will be continuing at that kind of organic range? If you could just provide a bit more color on that and maybe where incremental conversion rates will go for this year?

And the second question is on capital allocation. Obviously, the free cash flow generation is very strong and you've been very clear that you're not going to do any major M&A this year. I'm just wondering if that changes in any way your existing priorities in terms of investing versus returns to shareholders. Thanks.

<A - Robert Jan van de Kraats>: The first question – and by the way, thanks for asking two, and I would want to ask everybody to limit to two questions. Nicholas, the 7% cost growth for Q2 underlying, we anticipate it to be less. But on top of that, we are currently considering an additional investment in Monster in order to strengthen the commercial track record. So underlying, less than the 7%.

And then again, I made that comment at the beginning. Top of the management agenda is doing two things at the same time, making sure that we are having a good conversion; and on the other hand, making sure that we strengthen our technology base because we think long-term that is extremely important. So, both priorities have equal weight here.

And then on the free cash flow, you're right, the balance sheet is relatively comfortable and to what at the end it will improve at the end of the year, given the fact that we have a low-level ambition on M&A. But we are happy with having a little debt or less debt in the balance sheet. We do not anticipate any further changes other than the one we communicated recently which was the dividend policy adjustments to just cash dividend when the leverage ratio is below 1.0.

If, however, Randstad over time arrives at a very comfortable level then we'll entertain another discussion with the supervisory board and ultimately with the shareholders, but nothing decided as at this point.

<Q - Nicholas de la Grense>: Would it be fair to say that you wouldn't want to be in any kind of net cash position before you would consider buybacks?

<A - Robert Jan van de Kraats>: Yeah. Well, I don't want to be too precise here, that's why I'm referring to comfortable and we clearly understand that we have to serve our investors. And so, we'll have a good look at that when

we get closer to the zero. We don't necessarily have to be there before starting to think about it, because we can predict relatively nicely here. Our cash flow is less volatile than our revenues and EBITDA through the cycle.

<Q - Nicholas de la Grense>: And just one other question on the cost going back to that. The extra marketing expenses, Monster, I appreciate you probably don't want to give us the exact number, but is that a double-digit millions amount or is it relatively modest?

<A - Robert Jan van de Kraats>: Well, let me stick to saying that, I wouldn't be discussing it if it wouldn't be a significant number. So it has to be, but we're not finalized yet, so I can't share it.

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

Operator

Our next question is from Paul Sullivan from Barclays, if you'd like to go ahead.

<Q - Paul Sullivan>: Yeah. Morning, everyone. Couple from me. Firstly on Monster. Do you think minus 16% is the trough in terms of the growth trend? And how quickly do you anticipate the changes that you're making and the step-up in marketing that you're going to put through over the next few months sort of coming through and impacting the revenue trends there? That's the first question.

And then secondly, on France and sort of the inevitable CICE sort of scenario. With Macron looking a step closer and his comments about replacing CICE, what are your initial thoughts there? I mean, presumably you're closer to it than we are. So, it'd be interesting to gauge what you're thinking is fair now?

<A - Jacques W. van den Broek>: Okay. Good morning, everybody. Jacques here. Yeah. We hope, of course, that it's a trough, a job board such as Monster is very much a marketing game. So we need to invest to sort of compensate for revenue going down. And yeah, we'll see. At least, this is where we're going to start and it's tough to call the [ph] trough.

And it's also a change of business mix within Monster, so we think that Monster really was too much reliant on, what we call, long duration job postings and it needs to go way more into pay-per-click and pay-per-candidate. So, it's a little bit more than just having a reversed trend, there's also a change in revenue. So, it's very much in full swing, it will take time and tough to predict now.

<A - Robert Jan van de Kraats>: Saw your question on the CICE in France. Yeah, this is a very difficult thing. So effectively, the way we look at it, no change compared to the possibilities that we did foresee, the different scenarios we've analyzed those and we have prepared for those. And we think, underlying if you look at the profitability of the large players in the French market, there is clearly discipline in the market. So, nothing else to add to that.

And I'm just adding one comment to the investment we will be making in Monster. In many ways, this should have been part of goodwill because you're buying a company in decline. So, we checked with Deloitte but they did not allow us to put it there. Next question.

Operator

The next question is from Toby Reeks from Morgan Stanley. If you'd like to go ahead.

<Q - Toby W. Reeks>: Hi, guys. I've got two questions. The first is around monthly trends. Should we interpret your January growth of 5% to 6% in the quarter. 6.4% is an acceleration through acceleration through the quarter. And then the second one is going back sort of to next question on incremental conversion rates and digital investment. In December, Jacques described Search and Match strategy using algorithms aimed at the SME and professional market being trialed in France and the Netherlands. Could you talk about that more in detail, i.e., where is that increased investment going? Is it to those two specific areas? Will it accelerate? What are your

competitors doing? Have you had any success in the Netherlands? I think they're trialing in both France and the Netherlands. And what do you expect in terms of the incremental conversion rate going forward relating to that? Thank you.

<A - Jacques W. van den Broek>: Yeah. So your first question Toby Q2 last year was, is it a little easier to compete with? So the April trend, the fact that comparables are a little more relaxed, it's not a bad outlook at all. Let me stick to that. On the digital assessment, there's two things. So one is, we like to be – it's a bit of a challenge. So we like to be as transparent as possible as a company, but we also don't want to give away our manual on where we are going, because competition also listens into these calls. You've heard us announce our partnership with CornerJob which is an online staffer in France. So, an online staffer. They invest a lot in terms of marketing to track traffic on the site. And then, they can, in a way, click through to Randstad to make a legal combination, either a perm, but certainly also a temp because if you go to an online staffer as CornerJob, you can find someone but then you need to hire them or make them a temp. That's what we take care of. So that's very much a partnership, which is interesting, but early days to see if we can really get this moving. What we do see in our trials, in full online offerings, is that the candidates are quite quick to adopt. Clients are a little bit slow to adopt. We also see this, for example, employ in Belgium. It works like a charm, but there's still not the change of clients who changed from their incumbent supplier to the new online model. So that'll take time.

What Robert Jan also stated is what we see very much in France in our perm business, both in Professionals and in Staffing, the fact that we supply our consultants with big data support. So every morning, they see who is looking for the kind of profile that they have to offer. They can also work on creating the right profile, together with the client as they are sitting at the table. So we do see a speed up in the growth trend. So again, we mentioned the fact that we're going to have an Investor Day in November. We hope to shed a little bit more light on that.

<Q - Toby W. Reeks>: So just to be clear, what you're seeing at the moment is the stuff we saw in December, i.e., using the big data, web scraping and that sort of stuff, and...

<A - Jacques W. van den Broek>: Yeah. That's definitely where we are and we hope...

<Q - Toby W. Reeks>: ... rather than the online Staffing models?

<A - Jacques W. van den Broek>: Yeah. Well, there's two versions. And so one, we are digitizing our current business one called Search & Match, and we do see some good results in France, and also, in job scheduling. So our Inhouse account unit business will definitely tell you a little bit more on that one in November because that seems to be shaping up nicely. And then, we've got new business models, creating new spaces and new markets purely online. And also direct in France is very much a trial in that piece of our strategic roadmap.

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

Operator

Our next question is from Tom Sykes from Deutsche Bank. If you'd like to go ahead.

<Q - Thomas Richard Sykes>: Yeah. Morning, everybody. Just firstly on the gross margins. Could you just remind us whether your temp-to-perm conversion fees go in the perm business or go in the temp gross margin and how they've been trending, please?

And then, just on the Inhouse business, your organic growth has moved up from 10% to 15%. There may or may not be a bit of Easter effect in there, but could you speak about what your like-for-like growth and, indeed, outlook is for the Inhouse business, please? And maybe whether you've got a substantial backlog or not of customers that you think you can move from a branch to an Inhouse delivery model, please?

<A - Robert Jan van de Kraats>: Yeah. Good morning, Tom. Well, on temp to perm is in the perm numbers, that's why the – but that's not really the driver of growth. So the driver of growth is really pure perm. As you know, we've really adopted the model developed in our American Staffing business, where we trained our consultants in the temp

field to also start selling perm. And it's working very nicely for us and it's gaining a lot of traction also in our European business where in our German business, our Dutch business, you see huge double-digit growth that looks good, but it's from a low base. So that's very much driving perm. And also, we see mostly in our European business that perm in our Professionals business, in our Dutch business, but certainly in our French business is really gaining a lot of traction. So it's really, I would say, pure perm growth.

Yeah. Inhouse, funny enough, it keeps on surprising us, but still the market is picking this up very nicely. It's not so much as a result of economic recovery. It's really the concept. For example, in the U.S., we see still growth. Not so much with growth in like-for-like clients, but very much new clients. Over 44% growth in our Italian business, so the Inhouse growth has been in this market for more than 10 years, but we do see clients in Italy adopting quicker and quicker the usage of creating a strategically flexible workforce, so that works good for us, but still also in our French business it's gaining traction still.

It's not so much because of the backlog that we still have in transferring, it is very much purely sales. And as you know, because we've talked about this concept for quite a while, it's new clients but also existing clients taking market share. And existing clients having, over time, a higher penetration, a higher flexibility because the concept is quite steady and foolproof, so they just get more temps in the mix.

<Q - Thomas Richard Sykes>: Okay. So if the current economic environment continues as it is, in particularly in Europe, then your confidence is sustaining the sort of 15% growth that you saw in Inhouse or is that something a little kind of above-market about that growth rate?

<A - Robert Jan van de Kraats>: Yeah. I wouldn't see it gaining more traction than now, because we got some markets – for example, Italy, has such a high growth that even we are not that confident that we can grow, but still good double-digit growth as we see it in the coming months. Yeah.

<Q - Thomas Richard Sykes>: Okay. Great. All right. I'll leave it there. Thank you.

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

Operator

Our next question is from Hans Pluijgers from Kepler Cheuvreux. If you'd like to go ahead.

<Q - Hans Pluijgers>: Yes. Good morning. Hans Pluijgers, Kepler Cheuvreux. Going back on the gross margin question. If I look at, let's say, also the acceleration in Inhouse growth and at the same time, looking at the development in the gross margin, the 30 basis points pressure. How much explained by, let's say, the shift to Inhouse or to other delivery models if I make a quick calculation that I can estimate about 20 basis points of that drop is explained by that shift? Is it a fair number, do you think?

And then also come back on the trends for the quarter, if also there I make a quick calculation then your principal, February should have been – the growth should have been higher than in March. Is that fair assumption? And also looking into Q2, could you a little bit elaborate on what you see on the U.S. there, because there you see the market numbers picking up? Is it also a trend?

<A - Robert Jan van de Kraats>: Yeah. Hans, your last question, February. I think we are pretty high standard with our disclosure. So growth has been at the quarterly level also in March and April, and I think that provides with a good base for further analysis. And on the Randstad Inhouse question, just again a pricing pressure does not deteriorate. It remains as it was mainly in the Netherlands and a bit in France. And please remember that as part of the growth of Inhouse is conversion from clients from the regular staffing and branches into Inhouse where it typically moves with a low gross margin, but in Inhouse we then match it with a very high level of productivity and as such has good returns. So I would not over estimate the impact of that.

<A - Jacques W. van den Broek>: And to elaborate a bit on that, it's not as simple a mix as you now portray it because large clients generally there's where the price pressure is. There's upside in the SME growth there, so 15%

growth in SME. Comes at a higher margin, so that's upside. And then Inhouse, we already mentioned, so that's very much a mix as we call it.

You had another question which was on...

<Q - Hans Pluijgers>: Yeah. Quickly on the U.S., you see that the market is there picking up slowly...

<A - Jacques W. van den Broek>: Yeah. So the U.S. has easier comps into Q2, so that will help. We don't see a real pick up in the market as such. If there's anything to describe currently in the U.S. market, it's really a bit of uncertainty. I don't know if it has to do with politics, but it's a bit of wait-and-see attitude we see, but on easier comps. And as we already showed, our IT business is doing better than Q4, so let's hope that they can keep up that trend.

<A - Robert Jan van de Kraats>: Yeah. I would say, our Staffing business is growing probably slightly ahead of the market. In Professionals, we still have some opportunities. Jacques already referred to IT. We made some changes in the organization in Professionals of which we expect to see the return coming in, in the next quarters.

<Q - Hans Pluijgers>: Okay. Thanks.

Operator

Our next question is from David Vagman from KBC Securities. If you'd like to go ahead.

<Q - David Vagman>: Yes. Good morning. Thank you for taking my question. So I've got two. First, on the Global Businesses, could you please explain us the dynamic in terms of the margin decline especially at Sourceright? And then also, maybe if you can tell us when you expect Monster to be breakeven basically? And then, second question on Belgium. Do you think that your performance compared to the market can last throughout 2017? Thank you.

<A - Robert Jan van de Kraats>: Yeah. Let's end with Belgium. So we're happy with where we are. And as you know, we've got six weeks visibility, so roughly until the summer, and this also goes for Belgium. So perfectly happy with the way our colleagues are running the business in Belgium because it's the ideal mix of market top line outperformance and results improvement. That's about a sweet spot as you can get, yeah and we hope to keep it up, but we got no visibility beyond the summer, so that's – I can't answer that one.

<A - Jacques W. van den Broek>: And David, your question on global businesses, the margin decline here, the operating margin, that is the result of the inclusion of Monster. So that brings me to your other point, the Monster breakeven. We're taking this by quarter. We actually – last time we included a slide with boxes that show you the progress we're making, we'll include that one again when sharing with you the Q2 results, but it's going step-by-step, and we'll keep you posted quarter-by-quarter, but it's clear that we have an ambition to reverse trends as soon possible and making sure that we get to positive territory. And we're putting everything in place to get there.

<A - Robert Jan van de Kraats>: And then on the other part of our Global Businesses, which is our Sourceright business, MSP and our RPO business are growing ahead of global market. So it's a good double-digit growth, which also comes – if you have a lot of new clients, the first year working with the client comes at almost no return because you need to put a team in place and that sort of thing. So in this business, a bit similar to Inhouse, a lot of new clients always puts a short-term than profitability but it has a good long-term outcome. So we're very optimistic about the development of that part of our Global Business.

<Q - David Vagman>: And should we expect more detail on the profit development, let's say, from a theoretical point of view at the C&D?

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

Operator

Our next question is from Konrad Zomer from ABN AMRO, if you'd like to go ahead?

<Q - Konrad Zomer>: Hi. Good morning. Two questions, please. The first one on Ausy in France. Now that it has become a full part of your company, we know it's going to remain a separate entity, but is there anything that your remaining French business will notice from the fact that Ausy is now part of Randstad in terms of cost synergies, in terms of maybe revenue benefits or anything? And is the growth rate of Ausy still clearly above your other French business?

And the second question is on the 45% growth in perm in the Dutch business. We know it's from a low base, but just to clarify, is that also a reflection of the fact that clients in your Dutch business are more confident to recruit on a permanent basis as opposed to on a temporary basis, i.e., is there a certain bit of cannibalism taking place? Thank you.

<A - Robert Jan van de Kraats>: Okay. Yeah. We never use the word cannibalism. We always use the word we try to grow as fast in everything that we sell. I do think in analogy, do we see an employment going down. So our efforts on perm which already delivered in the last two years in quite a few markets are now certainly in Europe and also in the Netherlands very well bind. So for example, Yacht has a negative top line, as it's growing in gross profit as a result of the perm effort. So we never did a lot of perm within Yacht, but that's now gaining a lot of traction. So we think it's both. We are ahead of the Dutch market in perm absolutely, although the numbers are pretty tough to get. And I think the timing in the market is good.

On Ausy, Ausy will definitely benefit from us combining client contact, that sort of thing. Also, the fact that our French business is probably as we mentioned already the strongest business we have on supporting our people with perm. Well, the result is better at perm, but with technology. So, in France, all our temps have got their own app technology where we communicate with them. That sort of thing will definitely also be brought to Ausy. And then we've got, as we mentioned, a European props community. So on a quarterly basis, we sit together with the large European props businesses, and Ausy will be a part of that. So we're going to exchange client info, best practices, technology, that sort of thing. So, that will definitely help.

The growth rate in the French part of Ausy is not high at the moment. They've got issues with getting the right candidates because that market is heating up, and it's scarce to begin with. So, we also think we can help there to improve the growth in the French Ausy business slightly.

<A - Robert Jan van de Kraats>: Yeah. And actually, this is relatively a stable picture compared to the previous announcement in line.

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

<Q - Konrad Zomer>: Okay.

<A - Robert Jan van de Kraats>: So, the growth of Ausy just working days is quite stable versus Q4.

<Q - Konrad Zomer>: All right. Yeah. Thanks. So, just one quick follow-up. Your EBITA margin of your U.S. Professionals business, is that higher than the average you report on North America?

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

Operator

Our next question is from Rajesh Kumar from HSBC. If you'd like to go ahead.

<Q - Rajesh Kumar>: Hi. Good morning, gents. Just trying to understand, what do you exactly mean when you talk about price pressure? Do you mean that customers come out and say, we'll offer you lower markup on each temp or perm placement or do they offer a lower margin on HR type of services or is it a mix thing? Would really help us understand your comments about the price pressure you've made earlier.

<A - Jacques W. van den Broek>: Yeah. Okay. So, price pressure is tender at a large client, and they ask people to quote. They want a lower margin. And then, yeah, there is price pressure.

<A - Robert Jan van de Kraats>: Yeah. And on top of it, Rajesh, it could be that they are asking for extended payment terms or additional risk absorption by us where effectively in the tender, which is very often online, I have to sort to put a cross in the box, and if you don't do that, you don't proceed. Well, we are protecting our business and our profitability. So, sometimes, we accept not to proceed.

<Q - Rajesh Kumar>: Okay. So, you're telling us that all these contracts are open book. They can see what operating margin you're making, what growth margin you're making?

<A - Robert Jan van de Kraats>: No, that's not we're saying. That's now what we're saying. So, what we're saying is, you might have a 15% gross margin or a multiplier on the gross wage of the temps. That's how we normally present our prices. And then, they just ask the market if anyone can go lower or end. We see that a little bit private equity owned. You might have a 30 days payment term, and then they want to extend it to the next year.

So, we got some funny questions sometimes when they want to extend it to 60 or 90 days. We're even seeing a 180 days. And so, that's also a pricing pressure and also a risk in general. And then, not pricing related, but very much also reasons sometimes not going there. It's around liabilities where a client will say, well, we make X product. If anything goes wrong, you are to blame. That's the liability we really don't want to get into.

So, yeah, mostly in blue collar, by the way, it is. So, that's the playing field. And at the end of the day, that amounts to pricing pressure. And certainly, in the markets where we have a leading position, so in Netherlands, Belgium, Germany, and although we're not leading in France, we're leading in that respect, I think. We then shy away from going with these clients.

<Q - Rajesh Kumar>: That sounds very sensible. So, when you look at your entire EBIT, are we talking about 50% of EBIT, which is undergoing this dynamic or is it – you're talking about 20% of – I mean, in terms of customer exposure, these are large contracts, blue collar. So, I'm assuming they are at least 20%, 30% of your total earnings or is it across the board, across SME, across all sorts of customers?

<A - Jacques W. van den Broek>: Well, probably, Rajesh, it's like your own business, one way or another, you have to get your pricing right. But, if we look across the globe where we have, let's say, more intensive pricing discussions and pressure, that mainly relates to the Netherlands and to France, which adds up to like 30% of the business of the group. And within that 30%, it's not every segment. It is selective segments. So, it is not a very big part, but it is a relevant part of our business on which we are pretty critical and are willing to let deals go.

<A - Robert Jan van de Kraats>: And as a sort of a consistent thing, businesses, services commoditized over time, that's also why a reason for our Tech & Touch strategy. The second one is related to economic development. Although Europe is recovering now, it has been in decline for quite a while. And in America, with a better economy in the last three or four years, you see that pricing improves.

So, well, we do see unemployment coming down in quite some markets. So, hopefully, pricing pressure eases, but that's not what we're seeing currently yet.

<A - Jacques W. van den Broek>: And finally, we are training our people on getting the right price, which in itself is an interesting training to participate in.

<Q - Rajesh Kumar>: Thank you.

<A - Jacques W. van den Broek>: Hope this helps. Thanks. Next?

Operator

We have a follow-up question from Toby Reeks from Morgan Stanley, if you'd like to go ahead?

<Q - Toby W. Reeks>: Hi, guys. Sorry. I know it's only two, but I thought – yeah, just coming back on the incremental conversion margin. You didn't answer that question. Could you give us some guidance around where you see that trending over the next sort of two to three years, please?

<A - Jacques W. van den Broek>: Well, Toby, that's also interesting territory, yes. So, typically, when a growth initiates, then the first phase, we do show ICRs in the regular business of around 70%, even low 70%^s. And then, it gradually changes, because Phase 1 is effectively where we are selling more with the same people and the same infrastructure, but we pay more bonuses and commissions in marketing. That phase is over.

We are now in phase 2, which is where we are adding people on a significant – still in the front office mainly and hardly in the back office. So, that's why, the incremental conversion exceeds the conversion ratio. This phase typically lasts for a few years, because the final phase, and this is all theoretical, but the final phase is where you have to add all the costs pro rata. And that's where we are not.

So, we should still be, let's say, between 25% which is the conversion for the group as a whole and sort of 50%. And that's why, we indicated to you that most probably this year, we should aim at being around just the 40% level, and preferably aiming even a little higher. But that's – we made that point that's pretty ambitious.

At the same time, we are expanding our digital base where we believe we should accelerate and that's what we are doing as we have explained and actually as Monster explains, and these two things are coming together. And I made a point that both the ICR and the digital expansion of the company have equal priority. So, getting to a 40% ICR for 2017 will be very challenging. Let me be clear. But, one way or another, we should show progress made and that means we have to manage our cost base properly, so it should not be too far off from that.

<Q - Toby W. Reeks>: Okay. That's very helpful. Thanks, guys.

<A - Jacques W. van den Broek>: This is the management dilemma, Toby, that we are going through.

<Q - Toby W. Reeks>: It's a tightrope, guys. It's a tightrope.

<A - Jacques W. van den Broek>: Yeah. Yeah. Exactly. And when growth accelerates, this gets a little easier. But with these growth rates, it's a bit more complicated.

<A - Robert Jan van de Kraats>: And then, one more on this one. It's also around speed. If we read to some of your reports, you see that we are slightly ahead of competition in digital development, but the market is moving fast. So, we also want to capture as much of the momentum as we have and then, sometimes that involves a little bit more investment. So, we'll see for the next two years how that turns out.

<Q - Toby W. Reeks>: Okay.

<A - Jacques W. van den Broek>: But, it's exciting. It's exciting actually.

Operator

Our next question is from Steve Woolf from Numis Securities. If you'd like to go ahead?

<Q - **Steve J. Woolf**>: Morning, guys. I was wondering if you could just – could you give us more color on the trading conditions you're seeing in the UK? You mentioned no trading since Brexit. So, I just wondered how that's panned out during Q1. Obviously, conditions there revenue-wise are still a little soft at minus 4%. Thanks.

<A - **Jacques W. van den Broek**>: Yeah. This is not a very exciting space. Honestly, it's quite stable. It's not deteriorating further. It is what it is. When we talk a bit wait-and-see in the U.S., that's very much also the attitude we're seeing in the UK. It's, of course, a very in transparent situation economically. So, Ausy.

<A - **Robert Jan van de Kraats**>: Yeah. And I think from a capital standpoint, it's by no means a bleeder. So, this is a significant position, wait-and-see. And by the way, there are twice as many suppliers in this space in the UK as there are in the U.S. So, it is a complicated market.

<Q - **Steve J. Woolf**>: And so, per industry, is there anything that stands out?

<A - **Robert Jan van de Kraats**>: No.

<A - **Jacques W. van den Broek**>: No. Absolutely not.

<Q - **Steve J. Woolf**>: Okay. Thanks, guys.

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

Operator

Gentlemen, we have no further questions registered. I'll hand the presentation back to you.

Robert Jan van de Kraats

Well, perfect. Thank you so much for joining us in this call, and we are looking forward to connect again either during our road shows or at the end of July for our Q2 discussion. Thank you so much. Have a good day.

Operator

Ladies and gentlemen, this concludes today's call. Have a lovely day.