Randstad Q2 2024 Earnings Call - 23 July 2024 09.00 am CET

Sander van 't Noordende: Thank you very much, Adeep, and good morning everybody. I'm here with Jorge and with Stef, Temur and Steven from investor relations, and I'm happy to be sharing our Q2 results with you.

Overall in the period, trading conditions remain challenging across many of our markets. The progressive improvements we saw in the beginning of the year in labor data and manufacturing PMI have leveled up during the second quarter, specifically in North Europe, and this has influenced decision-making amongst both clients and talent, leading to subdued hiring activities.

And similar to Q1, we have seen a mixed picture in terms of growth across our markets. In short, not all green shoots that we saw at the end of Q1 have grown as well as we would have liked. Some of them have grown.

However, Spain, Italy, and Belgium all showed growth for the quarter and continued their positive momentum from the start of the year, and I'm pleased with our performance in these markets.

On the other hand, North America, France, Netherlands and Germany have not seen a lot of improvement over the past quarters. All of this continued to revenues of EUR`6.1 billion, a decline of 7.5% year-on-year. However, Q2 did show sequential stabilization, which we think is a positive sign.

Our gross margin came in at 19.8%, a 40 basis point decline from last year driven by service and geo mix, and this resulted in an underlying EBITA of EUR 181 million at 3% of revenues, which equates to a last four quarter recovery ratio of 44%.

We continue to navigate these challenging market conditions with operational rigor. Since the beginning of the year, we ramped up our commercial activities, resulting in significant double-digit increases in client visits compared to last year. We expect this will positively affect our relative market performance.

At the same time, we're carefully balancing the deployment of our field capacity and while we intend to keep our field capacity broadly at existing levels, we follow our field steering principles to allocate teams to growth segments and maintain productivity. We remain well-placed to take advantage of a pending recovery. In Q3, we expect the macroeconomic environment to remain challenging, so we're increasing our focus on reducing indirect costs to ensure we can afford sufficient field capacity, as well as strategic investments in talent engagement, delivery excellence, and technology. In the first weeks of July, we see stable volumes as compared to Q2.

Then we continue to make good progress with our partner, for talent strategy and we are seeing the first benefits coming through, starting with specialization. We have now completed the implementation of our specialization framework in all our markets. Let me reiterate why this is an important milestone. It is important because it means that now in each market, we have dedicated teams and leadership for operational, professional, digital and enterprise. And these teams are focused on specific client and talent needs, on innovating our offerings, and of course, on delivery excellence. This resonates with both clients and talent-focused works.

We've also completed the rollout of our digital marketplace in our operational business in the US. We are now live in all 40 states that we operate in, resulting in an annual run rate of over EUR 1 billion. This makes us one of the leading digital marketplaces for operational talent in the United States, and it's great to see the first benefits coming through in terms of faster client ramp-ups, higher fill rates, talent retention, and productivity, and we welcome the team of Torq. Torq will be the marketplace for our digital talent services business. We've already onboarded our talent in Latin America and India, and we have begun the same process in North America where we are also gradually onboarding our clients, from a delivery excellence perspective we almost tripled the size of our local talent and delivery centers, which now have around 1,000 people, and this is another way of specialization that allows for a better client and talent experience while enhancing productivity.

Finally, we announced the merger of Monster with Career Builder to create the third largest job board in the U.S. and as you will understand, combining the two companies will have significant scale benefits. In summary, we have a very challenging yet stable market environment. We've had significantly more commercial activity with a strong focus on indirect cost to first of all keep field capacity at level and secondly to be able to invest in the execution of a partner for talent strategy. Let me now hand over to Jorge to give a bit more color on the numbers for the quarter.

Jorge Vazquez: Thank you, Sander and good morning everyone. So bringing us back, let's say, to the end of Q1 during our Q1 publication, where we last left it in April, we discussed early signs of stabilization and back then improving leading indicators after a somewhat slow start of the year. Today we are pleased to see indeed a greater return to seasonality. We have more employees at work than we had in Q1 and we have a sequential uptick in revenues.

At the same time. Like Sander mentioned, somewhat disappointingly, we see that recovery has been slower than what we had originally expected and as probably many of you have observed both in macro and library market data, progression in manufacturing PMIs has stalled across key regions during the quarter, while industrial investments and therefore hiring levers are still reflecting a low part of the cycle.

Our portfolio shows more pronounced trends. We see more countries improving and you'll see it in a minute and many going back to growth. On the other hand, we see, especially in northwestern Europe, elevated macro and market uncertainty, resulting in subdued hiring levels and therefore growth levels. From an endmarket perspective, we see operational talent solutions outperforming late-cycle segments, and if we zoom in into our services, we see a similar pattern. Firm remains and RPO also remains tough, with temporary staffing and outplacement showing more resilience. We'll cover all of these in more detail just shortly.

We've been navigating these trends from a cost perspective, though. While we did make investments in growth and strategic initiatives, we managed this within our frame of adaptability. This means that productivity is addressed in the context of each market and overall indirect costs are more forcefully taken out. Our costs sequentially ended up lower, showcasing continued operational discipline. I am pleased to see further stabilization in our revenues and our ability to steer through these environments going forward. The balance is pretty much the same. With our diverse portfolio strategic initiatives underway and continued operational discipline, we are putting ourselves in the best position for recovery.

Now let us zoom in and let me now discuss the performance of our key regions on page 8 starting with North America, especially the United States. As I mentioned in our earlier conversations, the cycle is seeing one of the most extended periods of restrained PMIs and weak staffing market data. However, we do see more and more regular seasonality returning as well as some encouraging signs in our operational talent solutions. Our revenue dropped by 13%, slightly better compared to Q1 with perm declining still 24%. But Q1 perm at 40% still creating pressure on our gross margin and EBITA margin in the region, which nevertheless increased significantly from Q1. Our US operational talent solutions declined by 7% with sequential improvements in logistics and manufacturing. Most notably, our in-house is today, as we speak, returning to growth. US professional talent solutions were still down, facing challenging market conditions in line with our perm. US digital talent solutions was also down 16% while US enterprise solutions was approximately down 16% as well. The EBITA margin stood at 3.4% with a recovery ratio of 47% as Sander mentioned and very importantly, we have completed the rollout of our digital marketplaces, making us a leading digital marketplace for operational talent in the market. We also see early signs of benefits from our marketplace with increased productivity, higher fill rates with clients, and better realization of our database overall, providing a better experience for our clients and our talents.

Moving on to northern Europe on slide 9, in northern Europe, the business environment has not gotten any better. Q2 was a difficult quarter with a challenging macroeconomic uncertainty. Growth came in at minus 10% sequentially lower and profitability was heavily impacted by Germany, as we faced persistent headwinds. Despite these difficulties, we did maintain strong adaptability and again here as the new normalized level becomes clear, we have also adapted our teams and made a significant restructure charge this quarter in the region, zooming in a little bit into the countries. In the Netherlands, revenue decelerated to minus 9%. Most sectors did so, a softening demand, most notably automotive and manufacturing industries. As a result, our operational talent solutions were down 10%.

On the other hand, our professional talent solutions are still growing. EBITA margin came in at 4.6%, showing again strong adaptability. If we then turn to Germany, its challenging economic environment has resulted in revenues still down minus 16% showing no sequential improvement from Q1, Profitability was significantly down year-on-year, mainly due to less hours work for EW and other incidental effects including steel elevated sickness. While we do expect a better Q3, recovery is unlikely to be a straight line as we refocus the business for growth in our four specializations and streamline operations driving efficiencies. In Belgium, we did see great improvements and growth returning in line with the traditional sickle core pattern. I am pleased that as a market leader, we have competitive growth again and leveraging on the strengths of a very well diversified portfolio. Operational talent solutions were flat year on year while professional talent solutions were up 3%. EBITA margin came in at 4.5%, again showing good adaptability. Other northern European countries reflected mixed performance. Let me break it down for you. Poland saw stable trends being flat year on year. Nordics remained tough, down 26% and Switzerland was down 12%. EBITA margin came in at 1.4%.

Now moving on to Southern Europe, UK and Latam on slide 10. peaking of diverging trends, we see a strong recovery in our most southern European countries. Our businesses in southern Europe have shown resilience and strong adaptability with countries returning to growth. We achieved an EBITA of EUR 117 million with a margin of 4.8% in the region. We are investing in growth, increasing capacity in some units to enable a standard wrap-up period in 2024. France's revenue was down by 7% compared to last year due to softening demand in most sectors, while we saw businesses taking a pause following the uncertainty around the elections, delaying the recovery. However, please note, compared to its neighbors, France was in a late cycle last year. We're actually increasing from Q1 to Q2. The operational talent solutions decreased by 8% year-on-year while the professional talent solutions was down by 2%. France ended the quarter with an EBITA margin of 4.4%, again showing strong adaptability. If we go slightly east, Italy has returned to growth for the full quarter, growing close to 3% after already encouraging signs in March, the operational talent solutions grew 4% while firm decline also 4%. As mentioned last time, we want to capture the market opportunities and will continue to invest in areas of growth. Despite this, Italy still shows a solid EBITA margin. Iberia revenue continued to improve, growing by 7% this quarter, Q1 at 4%. Operational talent solutions again drew by 7%, whereas professional talent solutions started growing as well by 9% compared to last year. Notably Spain in particular showed robust growth with a double-digit 10% increase, mainly driven by strong performance in its operational talent solutions and also RPO. This progression reflects our ongoing efforts and investments again to capitalize on market opportunities and enhance our regional presence. Going into the other southern European countries, UK and Latin America, revenue and profit performance was mixed. The UK was still down 7%, though sequentially improving. Latin America overall was flat, with Brazil notably growing at 10%.

And now let's move on to slide 11. Asia Pacific, the Asia Pacific region also shows mixed growth trends with more challenging macroeconomic conditions at the beginning of the year. Nevertheless, Japan demonstrated a solid performance, achieving 2% growth with strong profitability. Operational talent solutions were down 1%, whereas professional talent solutions delivered growth of 2% year-over-year. Our digital specialization recorded once again double-digit growth in Q2 at plus 14% and I'm very proud of this consistent performance. There remains considerable potential in the world's second largest staffing market, and we continue to ramp up investments over the third quarter in line with the grower segment identified. Furthermore, South Australia and New Zealand saw continued softening in demand, declining 17% in the quarter. India, on the other hand, grew by 2%, showing resilience and continued focus on an improved portfolio. Overall, the EBITA margin for APAC was at 3.8% in the second quarter, reflecting softness in the Australian and New Zealand region. And that concludes the performance of our key geographies.

So now let's walk you through the group financial performance on slide 13. The group revenue for the second quarter, as Sander already highlighted, was EUR 6.1 billion, which is a decrease of 7.5% year-on-year. Organically, sequentially, we did see an improvement from Q1 into Q2, showing more and more of a normal seasonal pattern. From a specialization point of view, we saw the following. Our operational and professional talent solutions were broad in line with the group average declining 6% and 8%, respectively. Our digital and enterprise talent solutions, more exposed to North America and late cycle segments, declined more than the group average. Monster came in at minus 15% broadly in line with the previous two quarters.

As Sander alluded to already, we announced that Monster will start forming a joint venture, combining its core board business with Career Builder. We are excited for this new venture and our teams expect this transaction to close in Q3 with no material financial impact. We'll cover gross margin and opex later, but for now, the quarter underlying EBITA was EUR 181 million with a margin of 3%. Integration expenses were EUR 45 million this quarter. Of these EUR 3 million is approximately related to M&A integration costs. The remaining EUR 42 million are restructuring expenses. The majority are rightsizing indirect costs in north western Europe primarily. We'll talk more about this in a few minutes when we discuss our Opex developments. In amortization and impairment of intangible assets there's nothing relevant to highlight. Net finance costs in Q2 were EUR 20 million, slightly up from last year, resulting mainly from a higher net debt position. The effective tax rate was 26%, with our guidance remaining between 25% and 27% for the full year 2024.

With that, let's turn the page and look in detail at our gross margin bridge on slide 14. A few things about margin: the Q2 gross margin was 19.8%, down 30 bps versus last year. The overall temp margin declined by 40 basis points and brings a combination of headwinds. We saw a divergence of various geographical growth trends. We just went through them in more detail and these start playing in the mix, ten basis points year on year. We also saw that sickness remained high, especially in northern Europe, as well as some minor and in particular this quarter. Incidental impacts in Germany that were not supportive, another ten basis points. Lastly, our business mix, and you can see there with operational solutions growing faster than other specializations, had a negative impact of approximately ten basis points.

Furthermore, if you go further to the right in the chart, perm remains subdued despite easier comps. Perm declined by 18% reaching EUR 129 million and this decline was more significant than the temp business that shows more resilience, therefore hurting the gross margin by approximately 30 basis points. Additional RPO was a bit better on easier comps but still declined by 19%. Again higher decline or stronger decline than our temp business, which explained again another 10 basis points negative impact of HR services. Monster explains the remaining 10 basis points. Perm and RPO accounted for approximately 17% of the group's gross profit in the second quarter.

Remember, perm and RPO have been more prone to the weak hiring data and the time to hire was also longer in some markets given both election and macroeconomic uncertainty. This cyclicality is weighing on us. But cyclicality is working both directions and will support us strongly when the recovery comes.

Which now brings me to the opex bridge on Slide 15. And remember, this one is a sequential bridge from Q1 to Q2. In short, as we saw data moderating into Q2, we continued our discipline on operating expenses and acted to everyday's reality, resulting in the last four quarter recovery ratio of 44%, well in line with our range of adaptability and well instilled into the company.

Our headcount is broadly in line, allocating resources to growth areas such as Italy, Spain, and Japan.

In the second quarter, therefore, we were able to keep our cost base broadly in line, carefully balancing our strategic investments for growth without losing focus on the overall adaptability.

As we've talked about in the previous two quarters, we continue to address our indirect cost base. Examples include the management of IT and marketing spend and organization of all functions. As things normalize, we continue to adapt to the realities that we live in. A tangible example is our real estate strategy in the US, we harmonized our accommodation footprint significantly over the course of the first half of this year.

Going forward, we are committed to lower our cost base going into Q3. Again, we continue to balance our performance, strategic investments and field capacity. And due to the right sizing of our cost base, I expect a degree of restructure costs for the remainder of the year. As a reminder, we aim to have a 12 month payback period for our restructurings.

With that in mind, let's move on to slide 16, which contains our cash flow and balance sheet remarks. Our free cash flow for the quarter was up EUR 16 million, reflecting lower profitability and seasonality. DSO was 53.8 days. Broadly in line with Q1, the geographical mix does put some upward pressure on our DSO over the past quarters, which we expect to normalize as more late-cycle regions continue to recover.

We continue to apply strict capital discipline throughout the whole organization. As Sander mentioned, we have also acquired Torq in May and we're very happy with welcoming our colleagues and with this next-genAI powered talent marketplace under our Randstad digital business.

Lastly, we completed the fifth trench of our share buyback program announced in February 2023. Today we are announcing that this 400 million buyback program has now been finalized and it is our intent to cancel the shares.

Please remember, our special dividend of EUR1.27 per share is due to be paid at the beginning of October.

That brings me to the outlook on slide 17. You heard it from Sander. We remain cautious going into Q3.

On one hand, macroeconomic conditions remain challenging and our visibility is typically limited.

On the other hand, sequentially we did see a stabilization, we have more people at work and the return to normal seasonal patterns. We see growth returning in more and more markets following the dynamics that we are used to in our industry, with a more seasonal pattern emerging and diverging growth trends.

We do as we always do, managing on actuals daily and weekly steering and adapt where we find necessary. For Q3, we continue to capture growth opportunities where we can, balancing selective investments in strategic initiatives while safeguarding conversion through our adaptability corridors on a rolling year basis.

Now, let me first start with the activity momentum. In the first weeks of July, we see a stable volume to those experienced as we exited Q2. There will be, however, an easier comparison base. I would say approximately 2%. There will be an additional 1.1 working days, but these do fall in summer months.

Q3 2024 gross margin is expected to be broadly in line sequentially. Q3'24 operating expenses are expected to be slightly lower. So operating expenses are expected to be slightly lower sequentially while still protecting field capacity in many markets, protecting strategic initiatives and three, investing selectively in headcount, guided by field steering principles.

So, to summarize, we saw stabilization in the second quarter with normalizing seasonality. Our portfolio with diverse and balanced exposure geographically and in terms of services, allows us to benefit from different parts of the cycle. We've shown again our capability to adapt and how much there is built-in operational rigor in our teams. We have the best teams to operate the cycle and therefore we are confident to deliver on adaptability and execution of our strategy positioning us better as a partner for talents in a more pronounced future recovery. And this concludes our prepared remarks, and we look forward to taking your questions now. Operator.

Q&A

Q - Suhasini Varanasi (Goldman Sachs): Hi, good morning. Thank you for taking my questions. I have three, please. You have spoken about your plans to reduce indirect costs in Q3. Are there any numbers that you can put around it? How should we think about one off costs? Below the line, please. That's my first one. Second Paris Olympics; is it expected to provide any benefits for you in Q3? And the third question is on free cash flow. Working capital is normally countercyclical, and yet despite the revenue declines, you are seeing negative working capital. What has changed in this cycle versus previous cycles?

A - Jorge Vazquez: Let me start with the last one, and then we go into the other one. Cash flow, to be honest, there's nothing really changing. We, of course, our DSO and our receivables is a function typically of the last three months revenue. Our revenue is increasing from Q1 into Q2. So you see a little bit of buildup of working capital. And remember, normally the seasonal pattern of Randstad is the first half of the year is, let's say, either not cash flow generative or very small, very little cash flow generation. And a back front of our cash flow generation, typically between 80%, 100% of our cash flow is generated in the second half of the year. And we see exactly that behavior panning out. So I would say there's no change whatsoever from a free cash flow capability of the industry and the company.

Then on the one-off costs, look, they've been high. But you also have to understand that things have normalized for us and it becomes clear to our teams what was said. Normalization means we continue to learn, let's say, from how we changed from COVID. As Sander mentioned, we've rolled out specialization throughout the organization. We continue to digitize a lot of our processes. We are also, creating global delivery centers for our clients, but also for us. So we will continue to use the opportunities we now have in our hands, in our books to basically make sure that we address our indirect costs as much as we can to exactly protect field capacity and direct those two strategic investments and power in the markets. In that respect, I mean, it's always difficult to tell you what would be the exact level outside the levels that you see in Q2, given that we were disappointed from where we were in Q1, are relatively high. So, I mean, I think it's fair to say these levels are quite high. At the same time, what we always strive to do, and I mean, you follow this for a while, is our teams know very well what's expected in terms of the range of adaptability, and we reconfirm that it's always our ambition between 30% and 50% recovery ratio. So that is basically what we'll be striving to do throughout the rest of the year.

A - Sander van 't Noordende: Yeah. Well, let me say a few words about the Paris Olympics. Of course, we're very pleased to be partnering, and proud to be partnering with Paris Olympics on the recruiting and temporary labor needs, which is great. We have hired a significant number of people for their organization over the past two quarters, I would say, and they're going to be working a lot of people on the Paris Olympics, not only with the organization of the Olympics, but also with some of their partners in, you know, in catering, media, etcetera. So we all very excited in the bigger scheme of things, in the scheme of France. Relevant, of course, but temporary. In the bigger scheme of things, we should probably not expect too much of it in terms of revenues, et cetera.

Q - Rory McKenzie (UBS): And firstly, your temp volumes in the appendix were down 6%, which means that, I think for the first time since 2019, there's been a net negative impact from the price mix overall. I understand, obviously, permanent RPO are still in steep declines, but that had been in the past, offset by tailwinds from wage inflation. So I guess the question is, is wage inflation now really fading away to a minimal amount? What are you seeing on that point? Secondly, can you talk about what's driving the higher gross margin outlook sequentially? Is there any benefit from normalizing sickness, for example? And then thirdly, and finally, can you just talk more about the rationale behind the Monster move? What makes you think that there's a better home for Monster to be combined with Career Builder? And also, can you just run through the impact on your accounts as it gets deconsolidated? Thank you.

A - Sander van 't Noordende: Yeah. Rory, first of all, good morning. So, on the wage inflation, it's a good question. Let's say after what we've seen in '22, '23, even, we now see things normalizing overall. And the normal, let's say, wage inflation support that we typically had over the last 10 years to 15 years, it's what we should start normalizing and converging towards. And we see that now it is still a labor market, which mismatches. So, depending on the profiles, depending on the geographies, there are different considerations taken into account. But at the higher level, wage inflation is normalizing and becoming part of the normal trend that we've always seen. In terms of gross margin. Let me break it down a little bit to you. So we expect gross margin to sequentially increase from Q2 to Q3. Part of that is relatively easy to explain.

A - Jorge Vazquez: So Q2 margin, as I mentioned, was impacted by incidentals, especially a high sickness level, but also, let's say, incidentals in Germany in particular. So take into account q two is a quarter with a lot of holidays, public holidays. So how we account for this also has an impact on, let's say, on our gross margin. As we go into Q3, a lot of these things will normalize. That alone will support an improvement in the gross, in the temp margin. But also, let me be clear, if you look a little bit deeper into the numbers, the growth rates of RPO and perm will start, let's say, annualizing, so facing significantly easier comparables as we move from Q2 into Q3. And if you look at the actual amounts that we've invoiced in Q2, I mean, you see EUR 129 million of firm in Q2 versus EUR 131 million in Q1. So quite stable already. RPO actually the same amount, EUR 79 million to EUR 79 million, pretty stable. So things have stabilized and therefore just annualizing comparables from one quarter into the other will start supporting our margin.

A - Sander van 't Noordende: A few comments on Monster from my side, Rory. It's fairly straightforward. I mean, you look at the market as well as we do and you have seen that the job board market is a very competitive place to be these days, and it's a technology game. So operating at scale is really important in such a market, especially when the market is under pressure as it is these days. So by combining CareerBuilder and Monster, we can realize significant synergies, first of all in technology, but of course also in sales and marketing. So it's a scale synergies type of game, which makes total sense.

A - Jorge Vazquez: Yeah. From a P&L impact. Rory, sorry, was your last question. We expect to be, to be quite limited. We'll talk more about it, of course, when we actually close the deal, which we're expecting to be probably the first half of September, but then we'll be overall, I mean, minimum non-material impact in our P&L.

Q - Sylvia Barker (JP Morgan): Thank you. Hi. Good morning, everyone. Firstly, on the trend in July, clearly you're referencing the easier comps and that's maybe down 100 basis points to 120 basis points on that 7.5%. Could you maybe clarify you're running down 5% ish, 5.5%. And then on the second question on the cost base, could you maybe comment around the number of FTs and number of branches trends that you expect to see into Q3? And then finally on Torq, could you maybe talk around the strategy on that and where you see that getting to in terms of, I guess, candidates being put onto the marketplace within the course of the year?

A - Sander van 't Noordende: Yes. Sylvia, let me start with the talk one, because that's a very exciting platform and group of people that have joined Randstad, you know, the name of the game going forward is making sure we are engaged. Not only for one assignment, but for the longer term, with as many talented people in technology as possible. And in order to do that, you need a platform. You need a platform that is a destination for people to find assignments. It's a destination for people to learn, and it's a destination for people to engage with each other and all of that. That's what Torq is doing for us. So it's our intent to put our talent services business in digital, our staffing business, if you will, all on the Torq platform, starting in North America, then moving to other parts of the world. Because we think having a platform in the middle is good for a seamless client experience. Clients can put in their assignments, and also for seamless talent experience and for maximum matching, I would say. So that's the game plan going forward. Jorge, over to you on the other two questions.

A - Jorge Vazquez: So, Sylvia, first of all, good morning. So, first, on the trends in July, I mean, first of all, Q2 was a bit of a choppy quarter. Probably the best I can use for it. Probably many of you have seen and have read and written about some market data that came out. You saw April starting in a way that may be celebrating or showing a little bit of contradictory data. Then June kind of normalizing again in line with the overall quarter. What we see in the first weeks of July is that overall quarter trends are prolonging into July. So that is basically what we see and what we are navigating, though it is a diverging trend. Right. So it is a bit of a kind of different trends geographically, but applying broad pretty much.

If I look at your second question, FTE and branches, I'll need to zoom out a little bit. So FTE, look, we see many signs that are coherent with a lower part of the cycle or basically just a tipping point in the sense that certain of our countries are already returning, temp is more resilient than others. We see some positive signs on inhouse, we see perm still a little bit down. So logically speaking, where we see opportunities for growth. And again, having worked hard to kind of guarantee good recoverability, adaptability through the last two years, we are now investing in FTE.

At the same time, just looking at Q2, you heard today, investing in Spain, investing in Italy, we're investing in Japan. Looking at Q2, overall, we see that we actually decreased FTE from Q1 to Q2. So overall there doesn't mean that where we have too much fuel capacity or capacity installed will also not act. So if we look at the Northwestern Europe, we're still finding ourselves 10%, 15% from where we would like to see ourselves there. We clearly have too much installed capacity, and we'll need to continue to address this. So overall, it will be playing market by market, making sure we're ready to capture growth branches a little bit the same. You saw some of our restructuring costs as we address accommodation. So Sander talked about, let's say, our excitement, especially in the United States. We have all our business now in, let's say, manufacturing and logistics, all our, let's say, staffing business going through a digital marketplace. That does mean we can look at our accommodation and look at it from, okay, what type of work we want to do in physical places versus more combined offices. Sander alluded to talent centers and delivery centers. All that plays for us to basically continue to reduce a little bit our expenditure in accommodation. But I want to be clear, it's not about exiting markets. So we're not necessarily exiting markets. We are consolidating locations, and we are choosing what type of accommodation we need to have in each one of these markets, but the tendency is to continue to decrease.

Q - Afonso Osario (Barclays): Hello, guys. Good morning. Just have two, please. The first one, trying to quantify the impact of your high sickness rates in Q2, I think you mentioned ten basis points. I think that was Germany. But then was this just an April situation or did you see the same trend in May and June? I guess just a follow up to Rory's question earlier in terms of normalization in Q3 on the cycle, is that what you're seeing, and what kind of positive impact would that be on the gross margin sequentially?

And then, number two, just on Germany, obviously continues to be a drag to good performance; the minus 16 organic comps get somewhat tougher in the second half. So should we expect broadly similar performance or slightly worse on growth for Germany in the second half? And then as a follow up to that on the margin in Germany, I mean, now, like the negative margin in Germany. So what are you doing to improve operating margin in Germany going forward back to the mid single digit range you used to do before? So those are my two questions. Thank you.

A - Sander van 't Noordende: Okay. Thank you very much. Let me start with Germany. First of all, a bit more complex. Germany, of course, as a country, is in a very tough situation these days, as you would expect. We've implemented our specialization framework in Germany which was, I would say, a bit more of a profound exercise in Germany. Than in most of our markets, meaning we have integrated tempo team into Randstadoperational, and we have combined the professional business of Randstad with the professional business of Kube. And that's now all under the Randstad professional brand name. We've worked spans and layers by combining regions and branches similar along the lines what Jorge just mentioned. And we have created the national account and sales team to go after the big deals more, deliver the team. So we think we got our homework done. The teams are lined up for future success, so things should get better from here. That's the way we look at Germany these days. Better in terms of revenues and, of course, in terms of margin. Now to Jorge to talk a bit about the gross margin and signals.

A - Jorge Vazquez: Hi, Afonso Good morning. So, overall, I mean, every quarter has its own peculiarities. I kind of broke it down quite specifically on our gross margin, but let's say to give a little bit more color, while we are focused from Q2 into Q3. We see, indeed, that in Q2, we had a specifically lower gross margin in Germany, but also in northern Europe in general. You saw it on our temp margin that has been prolonged, especially in the beginning of the quarter, prolonged sickness levels. So coming from the carnival winter into Q2. And overall, in particular, given the high level of public holidays. And remember, in Germany, that has a bigger effect for us because a lot of the employees are accounted for very specifically different to other countries that had an impact and created an incidental impact in Q2 going into Q3, we expect that to recover from that, and therefore, sequentially moderately higher in Q3.

Q - Remi Grenu (Morgan Stanley): Yes, thank you and good morning. Just one remaining on my side. Just wanted to focus a bit on France and what has happened. I understand that the phasing at group level in Q2, you saw a little bit of a better June. But what happened in France, France more specifically, and especially since the snap election being called and the political uncertainty. And if you are having any discussion with clients or from your experience of historical precedent, what would you say could be, if any, the impact on the next few quarters if we were to remain in a kind of political uncertainty environment in this country?

A - Sander van 't Noordende: Yes. Thank you, Remi, for that question. I would say the situation in France is probably a combination of things. First of all, the GDP growth in France these days is less than 1%. That's one thing. The PMIs were ticking up but then went back down during the quarter, especially on the industrial activity. Maybe there is some impact from the elections or the aftermath of the elections and the Olympics, which sort of seems to pause things a bit over the summer, more so than we normally see in France, especially on the perm side. So I would just summarize to say clients are a little bit on the fence for confidence reasons, but also maybe for practical reasons, given the Olympics. I think that's the summary. That's where we are. We'll see what happens after the summer, but generally in France, things get a little better after the summer.

Q - Marc Zwartsenburg (ING): Yeah, good morning. Thank you for taking my questions, Jorge. First of all, I would like to come back to that working capital item because, yeah, you mentioned the first half, always a bit cash out, but the gap last year is quite significant and it follows revenues. But yeah, revenues are not going to be that much lower in the second half, hopefully. But I see last year in the first half, actually, revenues came up.

And you had less often a cash outflow than now with a declining revenue base. So I'm still a bit puzzled why that working capital is such a significant outflow in the first half. Well, the top line actually came down, so DSOs must have gone up quite a bit. You give a bit more color maybe.

A - Sander van 't Noordende: We see, we would see a strong cash flow, obviously the normal cash flow generation pattern of gun stats for the full year, with probably working capital being a little bit of a mix on the regions, where we are growing or we still somewhat in decline. Again, please also take into account the sequential pattern as much as it takes the year-onyear. So we need to celebrate the fact that we're going back into revenue growth and not necessarily on the decline rate versus last year.

Q - Marc Zwartsenburg (ING): And then maybe on digital and it's down 14% in the quarter, can you give a bit more color? Maybe why digital is still so much down? Is that startup stuff? Can you give a bit more color on the digital segment, please?

A - Jorge Vazquez: It's the market and it's the market and the actions that clients are taking. So first of all, our talent services business is in the spot where clients take actions. First, the contractors that are doing the small stuff at clients, they have been let go, as the first ones. Then the second, there are two key trends that are happening, and that is there's a lot of vendor consolidation going on, which generally also has a tendency to stall activity at the clients. And then there's clients moving more and more of their work to places like India and Romania and we have centers there and we're building them at a rapid pace. I think we have more than 1,500 people now working in India for Randstad’s digital clients. But as you are well aware, you know, the revenues that come with those, with those talents are also at the lower level. So it's sort of the combination of the two that results in the minus 15.

Just actually, quick check. Last year, just South Korea, we also built working capital and from Q1 to Q2 two. So just so it is kind of normal.Maybe it's a bit more the Q1 where we had a huge cash outflow.

Q - Marc Zwartsenburg (ING): Well the revenues were down. Maybe that explains a bit where there's a bit of timing effect at the end of the year then maybe on the corporate cost. So it's still increasing your investing. That's all clear. How should we think about that going forward? Also keeping in mind that you're trying to work hard on bringing the indirect cost down, I can't imagine that also assumes that on the headcount there might be some trimming. I should look at that going forward.

A - Jorge Vazquez: Yeah. So Mark, overall I'd say from a corporate cost perspective, in concrete I would say stabilization now for the rest of the years. But I'll always say, I mean again, our point is we strive to be quite consistent. It's in the culture of the company. So to be honest, this happens throughout the whole organization to either on the way up, on the way down, be quite clear of what's expected from a conversion of into profit and managing of opex in that respect. And that's typically the 30% to 50% recoverability of incremental conversion.

Within that we do make choices. So we are investing indeed in our strategic agenda. With this we can reduce some of our indirect costs elsewhere. We can optimize a lot of how we work. We can also protect fuel capacity as long as the net result of that brings us to a good recoverability ratio for the full year.

Q - Marc Zwartsenburg (ING): And then maybe a bit of a follow up looking to Torq. Would there be such, would there be synergies to have a similar platform in Europe that you can merge things, or can you just organically roll out Torq throughout the group.

A - Sander van 't Noordende: The Torq platform, we can. That is the platform for our digital business forums of digital. We can roll that out in due course in Europe and in other markets in Australia.

In general, I would say we are very excited about digital marketplaces. As you have seen in North America, the rollout has been quite smooth. We're definitely looking to have more platforms in the mix or to roll out the platforms that we have to cover a bigger chunk of our business by platforms for seamless talent and client experience, so that our consultants can spend more face-to-face time with our clients and with our talents.

Q - Konrad Zomer (ODDO BHF): Hi. Good morning, gentlemen. I've only got one question, which is on your EBITA margin. I think that today's results show that you're willing to sacrifice short-term profitability for midterm recovery potential.

But my question is, how do you look at your EBITA margin as a steering guide? Because you're looking at slightly lower Opex in Q3, your revenues are still likely to be down. Is it fair to say that the 3.0% you reported today is probably the low point of the year, or are you willing to sacrifice more near term profitability in order to prepare yourself for the recovery that at some point is likely to reoccur?

A - Jorge Vazquez: Yes. Konrad, let me try to be short of the answer. So thanks for the question. It's a very good question. Yes, we've been balancing. For the right reasons, because we are excited to watch, let's say, a lot of the things we're building and the portfolio we have today and the specialization, like Sander highlighted, organization by specialization can mean to us in the recovery. But things have been normalizing, and I can tell you no one in the organization is happy. No one, let's say throughout the whole world of Randstad is happy. We're seeing a 3.0% EBITA margin. We understand also there's an impact on mix. Things went a little bit deeper than we expected in perm, even in P&L and other areas at the same time. Yes, this should be the lowest. We have a lot of things ongoing to start. Let's say bring it up fast. The clear explanation or the clear guide is always our recovery and incremental conversion. So teams know exactly what's expected from them, from them within that, we do not take the eye off the ball when it comes to EBITA margin. We need to balance, but we're not happy yet.

Q - Sylvia Barker (JP Morgan): Thank you. Apologies. Just a quick follow up. You obviously basically called for a turning point in the top line trends. And one of the comments you made were the positive signs on in house. Could you maybe just elaborate a little bit more on what these positive signs have been and what end markets in particular? Thank you.

A - Sander van 't Noordende: Yeah, so, Sylvia, thanks for the question. So, in-house, first of all, we have won a significant number of deals, more deals than last year, and I'm talking specifically about North America here. And then also in North America, we see some of our clients ramping up the number of people they are using. So the in-house story, North America, helped, of course, also by the Randstad app, because, again, that the fulfillment and the ramp up is so much easier with the technology than in the old situation is absolutely helpful. So the fact that inhouse is moving in the right direction in North America is a very positive sign, I would say. The in-house customers are generally manufacturing and logistics.

A - Sander van 't Noordende: Thank you, Adeep. Before we wrap up the call, I would like to thank our over 640,000 Randstad people for their ongoing dedication and doing what they are best at. And that's delivering value to our clients and for those of them in the Northern Hemisphere if you still have some vacation ahead of you, have a great vacation and see you back in Q3.