



Q3 Results 2016

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Randstad Q3 2016 Results Call. My name is Seth and I'll be the coordinator on your call today. I will now hand you over to Jacques van den Broek, CEO, to begin.

Robert Jan van de Kraats

Well, good morning, ladies and gentlemen. This is Robert Jan van de Kraats, CFO of Randstad Holding. I'm going to take you through the presentation on the third quarter results, and then we'll be available for Q&A, and that will be the team consisting of Jacques, Chris Heutink, Linda Galipeau, and we are also supported by Arun Rambocus, and David Tailleur here. The third quarter results of Randstad, please note that Q3 seasonally is the most relevant quarter of the year. Typically, it's the best quarter of the year, and then the next one in line would be Q4, and then Q2, and then Q1. That's the seasonal pattern in our business. Moving on to slide 5 with the resilient trends. I think that sort of describes it rather well for Q3. We have seen top line growing at the group level by 4%, which is feeling somewhat like a hovercraft for quite a while now. More than three years we have seen growth in the range of 1% to 6%, 7% even, and that feels like a bit sitting in a hovercraft a little higher, a little lower for quite a while now. But that, in many ways, this is a rather satisfying growth development in the third quarter.

Gross margin, down slightly, by 10 basis points, but perm fees up as you can see here in the box, in the middle to the left, an important indicator. How much additional gross profit we see as a drop-through from to our EBITA, that's an indicator we use for our financial steering. The ambition is to have it at a level of around 50% and we have arrived at 53% for the last four quarters. So, that means Q3 and then going back another three quarters.

Adjusted net income up to €193 million, but more relevant, the return on invested capital at 18% now. The balance sheet looks good too. Leverage ratio of 0.6 compared to 0.5 last year at the end of the year including the Monster transaction. If that one comes through in Q4, we still anticipate to be below 1 time EBITA. Over the last four quarters, we have realized EBITA of 4.6% which is an improvement of 20 basis points. And another key point here, the volumes in October, so far indicates a continuation of a trend. We always measure volumes by week and we're looking at the October week now which confirms the trend that we have also seen in the month of September. In Q3, we have processed the acquisition of Obiettivo Lavoro in Italy, Careo in Japan and a small one twago in Germany. Monster is expected to be closed in Q4 and the acquisition of Ausy is still running as you can read in our press release and we anticipate closing of that in Q1 next year.

Slide 6, the P&L of Randstad stable mid-single-digit growth. This is where you can see the leverage coming through. Gross profit this time €1 billion and if you look at the conversion of gross profit into EBITA is an easy calculation this time, 27.1% which is an improvement compared to the 26.7% in the previous year. So, good organic growth over the last four quarters at 5%, gross profit at 4% for the last four quarters as well. And the last four quarters' operating expense, up 3%, and this confirms the operating leverage that has come through over the year at the bottom line. Next, slide 7, regional split. Also, again, resilient performance. And you can see here, I think, this picture describes it rather well this hovercraft feeling. We've seen a slight improvement in quite a few markets in the last quarter. We'll see what happens after this, but for now, at least, we have enjoyed it.

If I move to North America on slide 8, solid profitability here. Revenue was up 1% compared to Q2 where it was flat. Specifically, the U.S. Staffing/Inhouse business revenue growth was up by 2%, and this also includes growth in the staffing business in the blue collar segment. U.S. Professionals revenue, down 3%, still working on that. Canada improved from 2% in the previous quarter to 5%, which is clearly ahead of a challenging market. And all of this brings us to a strong EBITA margin of 6.5%, which is also confirmed in the graphics to the right-hand side.

Slide 9, the Netherlands, still affected by the payrolling business. Revenue grew by 2% which is just a touch lower than Q2 at 3%. We continue to see the decline of the government payrolling business which was announced last year, and which has been taking in for the last quarters. Pricing pressure clearly continues in the Dutch market, and our client reviews on profitability have made us decide to either let go of some clients or to continue with these clients at somewhat reduced pricing. Closing the gap to market takes a bit of time here. Perm is up 26%, quite an improvement. Again, like other markets, this is the result of our strategic focus on this segment through

standardized concepts rolled out throughout the world. And also, in the Netherlands, we can now see the effect of that. It is coming from a small base but it's excellent growth. The combined Staffing/Inhouse business grows by 3%. That's an improvement. The Professionals is down by 4% compared to the previous quarter with a lot of growth. This is clearly not satisfactory, but we also should point out that the comparables of last year are a bit challenging in this quarter. The Professionals business is working hard on getting its commercial focus organized in order to gain market share again and combat good growth rates. The EBITA margin at 5.8% compared to 6.1%.

France on slide 10, actually solid across the board, continued mid-single-digit growth here. Revenue up 5% compared to 4% last quarter. Staffing/Inhouse doing well but especially Professionals and perm growing significantly. Perm includes the effect of using the data tools. This is a quite a good performance, we would say. Also, at the EBITA margin line, 5.9% against 5.8%. Underlying some developments of some statements in the space of CICE and the outlook for that continues to be good.

Germany on slide 11, steady growth and improved and profitability. Here, we see growth at a 5% level continuing, and also SME continues to outgrow large clients. Staffing and Professionals up, one by 4%, the other by 8%, and increased profitability here as well, 5.9% now.

Belgium slide 12. It's closing the gap to the market. Revenue up by 5% now. Some of that explained by the comparable of last year. It too was still a negative. Staffing/Inhouse also here growth at 5% compared to the decline previously. Gross profit up clearly by 8%, which is the result of strong focus on clients' profitability. We're gearing up for more growth in these markets and the EBITA margin arrived at 5.9%.

In Iberia, we also see improving results across the board, I would say, both Spain and Portugal doing quite well. Revenue growth in all segments and also the perm business expanding rapidly with a good return at the bottom line, 4.8% EBITA.

The UK, no visibility on impact of Brexit on slide 14. Actually, revenues improved slightly and also perm improved a bit. EBITA margin at 1.8% now. Perm is down by 4%, but relative to Q2 was improved slightly. So, whatever impact from the Brexit nothing clearly visible as we speak. If you look to the graph at the right-lower corner, the EBITA margin, over time, is continuing to improve.

Slide 15, the other European countries. Italy, the first one to mention, revenue growth very solid at 15% improvement compared to Q2. And also, the focus on specialties then perm, up by 33%, is clearly paying off. The acquisition of Obiettivo Lavoro is on track, it's substantial upsides in terms of value creation. It has an impact on the group consolidated numbers, however, because it comes in with a lower gross margin, a lower EBITA, and higher working capital, and that's what we see coming through from all these lines in the consolidated numbers.

Switzerland, it turned the corner a while ago, and it clearly continues here. In the Nordics, the integration of Proffice is well on track, so we're happy to see that moving on. EBITA is 4.5%.

As I mentioned, especially the Italian acquisition comes in with a lower-than-average EBITA contribution. The rest of the world on slide 16, also growth accelerated.

In Japan, growth rate at 5%. Perm even grew by 44%, and that clearly contributed to the EBITA margin improvements from 1.5% to 2.7%. Also, Australia grew in Inhouse and in perm very helpful.

Moving on to slide 18, the income statement of Randstad. If you look at the column, organic percentage, you see revenue growth by 4%, gross profit, 3%, operating expenses by 2%, and that is the operational leverage that helps us both for this quarter and for the last four quarters too – it clearly contributes to the improvement of EBITA.

Integration costs and one-offs that have been included here have been taken out of underlying EBITA are related to M&A, to RiseSmart, to an adjustment of IT. We have changed our focus here. We are moving our data centers and data communication into a shared service center, or we have moved that and we have outsourced that. And as a result of that, we have some obsolete IT that is being depreciated in one go here.

The amortization and impairment has declined compared to last year, but following the recent acquisitions, this will

increase again.

Slide 19, performance by revenue category, Staffing, Inhouse and Professionals. In Staffing, clear focus on delivery models through central delivery as much as possible, but also, withdrawing as I mentioned from some low margin business. 5.3% EBITA now a clear improvement. Inhouse, both growth at the revenue line and EBITA of 10%. This is why the straight forward expansion comes in and immediately sort of fits the overall model and arrives at 5.3% now.

Professionals. Operational leverage helps us there. Revenue growth of 2% and EBITA growth of 3%.

Gross margin bridge on slide 20. The temp margin down by 10 basis points and the impact of perm placements and HRS is roughly zero. Perm fees grew by 7% organically, which compares to 11% in the previous quarter, 7% in the first quarter. This has been a high growth area. Last year, we did see quarters with 13% growth. Staffing perm is outperforming Professionals perm here. There is an immaterial impact from acquired companies here because it kinds of nets out the positive contribution from Proffice in the Nordics and the negative contribution from Italy, and again a positive but smaller contribution from Japan.

Operating expenses on slide 21. The biggest impact comes from M&A, that's non-M&A expenses but this is the contribution of a quiet target through the cost base of Randstad. If we exclude it and look at it organically, OpEx is down sequentially by €8 million. So, the previously slide compared last year Q3 with this year Q3 at operating expenses, if we look at the sequential development from Q2 this year to Q3 this year. There is a minor unfavorable impact of foreign exchange of €1 million included here. The balance sheet net debt, €561 million. Leverage ratio, 0.6 at the bottom. You can again see the return on invested capital being 18%. Quite good. Day sales outstanding and working capital both are slightly impacted by the acquisition in Italy. We have included in this balance sheet a receivable for CICE, which is north of €300 million. It's a receivable on the French state.

On slide 23. Free cash flow, the overview. Here, we have a bit of impact of timing here, the change of working capital. But nothing specific that is of any relevant meaning. We do have net capital expenditures, however, that are a bit higher than normal, which is clearly a one-off and it's related to specific projects.

The outlook finally on slide 24. Organic revenue growth was 4.2% in Q3. In September, revenue grew by 4%. And as said, the volumes that we see early October indicate a continuation of the growth rate in Q3. Looking at the month of September, the exit rates here. The exit rates for the Netherlands, it's low-single digit; for France, mid-single digit; for Germany, mid-single digit; Belgium, mid-single digit; UK, flat; Iberia, mid-single digit; North America, I'm going to give you the precise number because it's 1%. That's more clear for you. The rest of Europe, low double-digit and the rest of the world, high-single digit, adding up to 4%. Gross margin for Q4 is expected to remain at least stable sequentially. We hope this provide some guidance for you. And also, we expect a minor sequential increase of operating expenses on an organic basis.

In Q4, we do not just expect, we're sure that we'll have 1.1 less working day versus last year. And, as I mentioned previously, with regards to the balance sheet, we do anticipate, including the acquisition of Monster board to see a leverage ratio of below 1.0 times EBITA. Well, this concludes the point that we felt were relevant to elaborate on. We're now moving to Q&A. And I ask you to limit the number of questions you have to two max per person, at least, in the first round. Thank you. Operator.

Q&A

Operator

And the first question comes from the Chris Gallagher from JPMorgan. Chris, please go ahead.

<Q - Christopher Gallagher>: Good morning. A couple of questions, the first, on France. You don't seem to

necessarily have seen the margin pressure that one of your peers reported recently have seen. Can you explain what you think of the market there in terms of pricing and also on the impact of CICE may have next year?

And the second question is just around IT costs. At the CMD last year, you talked about wanting to reduce those by about 20% over time, and you signed the BT deal. So, do you have any view on the timing of phasing of those particular savings? Thank you.

<A - Jacques van den Broek>: Yeah. Thank you, Chris. Good morning, Jacques, from the group here. Well, actually it's an interesting picture. We're very happy with our French performance. We actually said good-bye to some quite low margin clients. And still, we saw ourselves at market in September. With a better business mix, you've seen our growth in SME and in perm. So, there's absolutely price pressure, but we've made the right choices, we think, and therefore, it doesn't show in our results.

<A - Robert Jan van de Kraats >: Yeah. And Chris, following up on the IT savings. Last year, at the Capital Markets Day, we indicated that we would be able to save over time some €50 million on the IT expenses. This is – you're now referring to the first step, which is the shared service center and the outsourcing of our data centers and data communication. That's a small part of it. And we expect to see the first savings. But again, that's a small contribution coming in the course of 2017 and more meaningful in 2018.

<Q - Christopher Gallagher>: Okay. Thank you. And just a follow-up on the first question in terms of the changes in CICE, how do you think that plays out next year when you look at gross margin in France?

<A - Jacques van den Broek >: Yeah. Well, it's more than rumors, we think, but still to be confirmed that as a percentage if CICE goes up from 6% to 7% in the current program. No news on any prolonging, of course, after the elections, but that could prove to be good news. But yeah, then we need to wait and see if that is confirmed in December through the French government.

<Q - Christopher Gallagher>: Thank you very much.

Operator

The next question comes from Nicholas de la Grense from Bank of America. Nicholas, please go ahead.

<Q - Nicholas de la Grense>: Good morning, guys. Just a quick follow-on from the CICE question just then. I mean, it looks like CICE is going to increase to 7% of wages next year. I know we have to still wait for confirmation. What would be your view on the impact that that could have on French margins? Do you think that will be sufficient to offset any kind of persistent gross margin pressure that you are seeing across the market there? And then, I wondered if you had a view on CICE post 2017 given that most of the candidates for the presidential election have indicated a preference for switching CICE to a more permanent reduction in social charges. Thanks.

<A - Jacques van den Broek >: I think it would be, in a way, bad news if wages were to be increased in France. I think France in itself has a labor cost problem to start with, also still quite high unemployment, so we think it's too early in general. As you probably know, in mainland Europe these wage increases are far less volatile up or down as they are in Anglo-Saxon markets. I've got no view on anything post election. As you know, we don't know who's going to be elected, let alone what the program is going to be. The only thing I do know is that CICE is widely regarded as one of the most successful projects of the Hollande administration currently with good effects on the French economy.

<Q - Nicholas de la Grense>: Okay. Thank you. And just one quick follow-on on the margins again. The midterm target of 5% to 6%, I guess, is still valid but the macro has been unhelpful to you over the last 12 months or so. Are you still comfortable with that 5% to 6% aspiration, and do you get you'll get that this cycle? And if so, what conditions would you need to see operating leverage kind of kick-in again and see the margins start rising? Thanks.

<A - Robert Jan van de Kraats >: Yeah. That's a relevant question, and the answer is, yes, we still feel comfortable. When we made the point, I think, two years ago at the Capital Markets Day, we indicated it would

require high-single digit growth. Actually, it's one year ago, October – November 2015. And we said it requires high single-digit growth. That's not what's coming through. And that the effective means is taking a little longer, but it doesn't mean the target should be off the table.

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

Operator

The next question comes from Tom Sykes from Deutsche Bank. Tom, please go ahead.

<Q - **Thomas Sykes**>: Yeah. Morning, everybody. I just wondered if you could pick out the main points for why the leverage wasn't a little bit better placed because obviously Q2, you had 3% organic growth and 10% organic EBIT growth. In Q3, you've stated that your organic EBIT growth is 5%. And I know you said in other Europe, you added lower margin business. But organically, your other Europe EBIT is down versus being up 30% in the last quarter. And then, obviously, Belgium, you've alluded to some extra costs going in. But can you please just explain why there's not the leverage while you're accelerating, please?

<A - **Arun Rambocus**>: Hi, Thomas. Arun here. I think the only thing – what is different compared to previous quarters that on a group level, the gross margin is down 10 basis points, right? Whereas in previous quarters, it was up. And we explained why that happened. But that sort of has an impact on the overall operating leverage of the company, right? That is the big difference.

<A - **Robert Jan van de Kraats**>: Tom, and we, as management, felt that we are actually happy with the results. So, this question, we wanted to pass on to Arun.

<Q - **Thomas Sykes**>: Fine. But can you pick out the specifics in other Europe? I mean, it's obviously becoming a more meaningful division for you now with all the acquisitions that you've added. Why would that be organically – why would other Europe be organically down? I mean, are you adding low gross margin business? You obviously kicked out the gross margin. Are you alluding to the fact that you can't add business, a decent gross margin?

<A - **Arun Rambocus**>: No. But you talk specifically about other Europe, and in other Europe, as we indicated in the presentation, there's impact from acquisitions in the EBITA margin development, right. We add two companies...

<Q - **Thomas Sykes**>: Organically though. Organically, your EBIT is down in other Europe business.

<A - **Arun Rambocus**>: Yeah. Let me take that one offline, okay, to come back to you.

<Q - **Thomas Sykes**>: Okay. And then, can I just ask on the U.S. What is the relationship between how quickly you grow in MSP, and then how quickly your U.S. revenues organically might benefit from that? Because you haven't picked out what your spend on the management has done year-on-year in this quarter? It was up by over 30% last quarter. Is that positively indicated to your own organic growth do you think in the U.S.?

<A - **Linda Galipeau**>: Yeah. That's a good question. Over time, it should be. Right now, if you look at the organic in the U.S. Staffing business, it's actually not customized, it's leading the way. So, it's not growth – I mean, our growth remains solid in RIS. It's actually not customized growth where we're seeing an acceleration. So, although both the MSP and the mass-customized continues to do well, those numbers are unrelated at the moment.

<Q - **Thomas Sykes**>: Okay. Thank you. I'm really sorry, but can I just clarify that 1% U.S. – sorry, North American growth. Is that also the same, that Canada and the U.S. are the same as they were in Q3 or has there been a further acceleration in Canada, please?

<A - **Arun Rambocus**>: For Q2?

<Q - **Thomas Sykes**>: In the exit rates. Sorry. And the exit rate you gave, the 1% September. I just wondered where Canada was versus that North American 1%.

<A - **Arun Rambocus** >: Hold on one second. The U.S. seems a bit stronger than Canada, but let me take it offline, I'm looking at the headline number.

<Q - **Nicholas de la Grense**>: Okay. All right. Thanks very much. Thank you.

Operator

The next question comes from Toby Reeks from Morgan Stanley. Toby, please go ahead.

<Q - **Toby Reeks**>: Hi there. Could you sort of expand the comment on pricing pressure that we've heard about in France to the Benelux market, which is a market you guys had flagged? It's also under pressure. And I think it's also one where you said you were preparing for growth – well, I think it was Belgium where you said you're preparing for growth. And then, my other one would be, you talked about some accelerating depreciation on some IT platforms. Could you quantify that? And given that we are still shifting to more technology-driven model, often that's involving some bit of change, I guess, in the level of investment and the type of investment guides you're making. How much more of that will be and how much would a potential acquisition of a new technology platform change the strategy around that?

<A - **Robert Jan van de Kraats** >: Yes. Toby, I'll take your second question. First, IT, the impact is roughly €4 million, included in the one-offs in the P&L. And it's too early to give you an answer to your question because the corporation with Monster won't give us a new platform to rethink our strategy from. So, that is something we'll address later.

<Q - **Toby Reeks**>: Okay. Fine.

<A - **Jacques van den Broek** >: Toby, you said Benelux, but we flagged the fact that in Belgium, very happy with our profitability. A little bit less happy with our growth rates. So, we allowed the Belgium management to invest a little bit more at front-end to increase growth. And it looks like it's kicking in. So, that's really – delivered strategy to get closer to market. In Belgium we don't experience price pressure as much as we do in, for example, the Netherlands.

<Q - **Toby Reeks**>: Okay. And the pricing pressure continues in the Netherlands?

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

<Q - **Toby Reeks**>: Thank you.

Operator

The next question comes from Yves Franco from KBC. Yves, please go ahead.

<Q - **Yves Franco**>: Good morning, gentlemen. Question on the Netherlands. Past quarters, your margin, excluding the payroll effects, your margin was down around 100 bps. It's priced positively for me now this quarter. Can you talk about what changed on the pricing or other things because you report strong pricing pressure while the ABU figures reported positive 1% FX price mix over the past quarters. That's the first question. And the second one, the UK market, manpower report to see – to even see some opportunities in the perm space in the UK market. While one would expect that given the uncertainty around Brexit, that would be the first market to suffer versus the first, the temp staffing market. Are you seeing the same thing? And how are clients – how are you perceiving the behavior of clients so far in the UK? Thanks.

<A - **Chris Heutink**>: On the Netherlands, pricing pressure continues. You still see that the larger accounts and the bigger tenders are still under pressure. We are, of course, having a lot of revenue in that sector. So, that's the reason why there's still a pressure. Although if you compare Q2 to Q3, you see it stabilizing EBIT.

<Q - Yves Franco>: Yeah. But how do you compare then, you reporting pricing pressure while the ABU figures don't?

<A - Chris Heutink>: But, I think, we are most exposed to the bigger tenders within the country.

<Q - Yves Franco>: Okay. And – yeah. So, I understand.

Operator

The next question comes from Hans...

<A - Robert Jan van de Kraats >: No, no, no. We still have to respond to the UK question.

Operator

Sorry. Apologies.

<A - Linda Galipeau>: Yeah. Yeah. On the UK, indeed our perm numbers have been under some pressure. We are largely seeing that in the F&A sector where we still had quite a robust retail F&A perm practice, and that's definitely under pressure. We're getting perm growth is more in our geo contracts, the largest scale perm contract. That's doing quite well, but those come at a lower price point than the retail market. So, it's primarily the shift between models that harming us...

<Q - Yves Franco >: Yeah. Okay. But so far, as reported by your peers, you don't see any business confidence deterioration so far in the UK now?

<A - Linda Galipeau >: Correct.

<Q - Yves Franco >: Okay.

<A- Linda Galipeau >: Sorry.

Operator

The next question comes from Hans Pluijgers from Kepler Cheuvreux. Hans, please go ahead.

<Q - Hans Pluijgers>: Yes. Good morning, everybody. Two questions from my side. First, looking at the U.S. Could you give some indication or breakdown of volumes and price impacting the 1% growth in North America? Secondly on Germany, still continued growth. Could you give some feeling on segments per size? Were you indicating SME which – could you get also a feeling on, let's say, specific industries which, I say, it's different trends? And also on Germany, professional, any – let's say, also, is there any segments where you see stronger growth or less change in trends?

<A - Jacques van den Broek >: Yeah, Hans. Good morning. I'll answer the German question. We're very happy that started like two quarters ago. That SME is outgrowing large clients, very much a result of our improved activities in the market that has been going on for two years now in Germany and has sweeping results. We're very happy there. That of course means that the growth in large clients in general is a bit more sluggish to flat. Manufacturing sees good growth. Automotive declined partly because of closings in Q3, but partly also because our automotive clients have hired more people. There is this gentlemen's agreement that after two years, people get hired. It's something they arranged with their workers council. And then, transport and distribution, a solid good. So, pretty much what you normally see in the first phases of a growth market. So, quite happy with our general performance. In Professional, it's mostly are freelance IT business that shows double-digit growth, and that carries the growth in our Professionals business in Germany.

<A - Jacques van den Broek >: And the closing shops, they relate to holiday closing.

<A - Jacques van den Broek >: Yeah. It's more seasonal than it is driven by the economy as such.

<A - **Jacques van den Broek** >: The U.S.

<A - **Linda Galipeau**>: Yeah. On the U.S., it's a complicated question because – where our growth is coming from? So, right, overall on the U.S. market, the commercial staffing side, we're seeing just a little bit north of 2% wage inflation. And we have – which we are paying, and we see stable slightly positive growth margins. So, however, the fact that our general staffing business is growing faster than our professional staffing business means that we are making – our revenue is lower in our high-bill rates, and higher in our lower-bill rates. So, that's sort of offsetting the volume versus price impacts that we're seeing. But overall, there is definitely wage inflation of about 2% and temp margins remain good.

<Q - **Hans Pluijgers**>: So, one follow-up on Germany. Looking at the mix changes, you should expect slightly better growth, also looking at the strong growth in Professionals, so slightly better operational leverage. Are you already investing to support the growth in Germany or is there still some spare capacity there?

<A>: No. The growth in the IT freelance business doesn't come in at a higher level than the performance or the profitability in our staffing business. So, that's the reason. It's not so much an investment question.

<Q - **Hans Pluijgers**>: Okay. Clear. Thanks

Operator

The next question comes from Paul Sullivan from Barclays. Paul, please go ahead.

<Q - **Paul Sullivan**>: Yeah. Morning, everybody. Just a couple for me. Are you seeing any signs of wage inflation coming through in Europe currently? That's my first question.

Secondly, the strong growth in rest of Europe and rest of the world, do you think that is more market or Randstad-driven? What's your feeling there in terms of the performance?

And then just finally, on the Professional business in Holland. Any timeframe for improving performance or do you think with a couple of quarters, two or three more quarters of declines will work through there before it starts to turn around? Thank you.

<A – **Chris Heutink**>: So, I will take the last one. On the Professionals business in the Netherlands. A bit of a complicated story. Robert Jan mentioned already the comparables. So, if you look at the Q3 2015 and Q2 2016, it was a bit overstated in the reported growth because there was a delay in billing and there was a healthcare, a revenue shift from Yacht to Randstad Temple team. And these results also ended underlying growth. In Q3 2016 is actually not 4% as reported – or reported minus 4% but it's 4%. So, it's a bit overstated in the Q3 2015 and the Q2 2016, with understated in Q3 2016. So, the picture is a bit better than the reporting gives you the impression. Secondly, there's a reason of course, because we shifted from a 360 model to a split model in Q2 2015. What you see there, is that people make a choice for recruitment either sales, and in a few quarters' time they either underperform, either they regret the choice. So, we see outflow of consultants and these are replaced by junior or new consultants. And it typically takes three quarters to get to full productivity. So, the coming quarters, hopefully, we will see improvement in terms of growth.

<A - **Jacques van den Broek** >: Yeah. So, no wage inflation in Europe yet, that's early days. Actually, in the rest of the world and the rest of Europe, it's a bit up. So, Italy with 15 percentage is the organic growth rate. So, this is excluding Obiettivo Lavoro, we're very happy with our performance that's quite above market. Switzerland is also above market. Japan is above market, and Australia is above market. So, yeah. So, I don't regret to say it's us. And wage inflation in Europe is minimal. It relates to collective labor agreements adjustments, but it's a low-end of the range.

<Q - **Paul Sullivan**>: Great. Thank you very much.

Operator

The next question comes from Marc Zwartsenburg from ING. Marc, please go ahead.

<Q - Marc Zwartsenburg>: Yeah. Good morning. Thank you for taking my questions. First, going back on the Netherlands, We see the capital market being a lot stable in Q3, first Q2. We see some improvement in margins. And would that – in terms of strategy, looking to the growth versus margins, would you now, perhaps, take a sort of a Belgian approach as you put a bit more investments into the front end to get back to market to repair for these lost payrolling business? And on the back of that, could you also give a bit more detail on Yacht, what's going on? The story of Chris, just what he mentioned on plus 16 and all of that. I didn't really get that, what happened there. Could you give, perhaps, the picture for Yacht and what you can expect in terms of margin development there going forward. That we have the layoffs in there and the change of model, when should that phase out? Should we see some improvement in margins there? So, that's my first question on the Netherlands.

<A>: Oh. That's the first question?

<Q - Marc Zwartsenburg>: The second question – yeah. Yeah.

<A – Chris Heutink >: We'll take it one bite at a time, yeah? I give you answers right now, if you like. First of all, I will repeat that, let's say, the underlying growth rate for Yacht. In Q3 2015, it's 13%. In Q2, 2016 it's 8%. In Q3 2016, it's 4%, due to the late billing and healthcare, as I mentioned before.

<Q - Marc Zwartsenburg>: Okay. Yeah.

<A – Chris Heutink>: So, that's the reason there. If you look at the verticals compared to market, I think in engineering and finance, we are more or less flat market or probably a bit below. In IT, we continue the strong growth of 23% in Q3. In Q2, there was also double digit. So, that's going in the right direction. If you look at the margin development, I think we are not unhappy with the margin development in Yacht, specifically, we have to work a bit on the mix in terms of interim professionals and freelance. And as you know, freelance has a bit lower margin. But we will work on that and it will come through in the coming quarters. If you look at the staffing business, if you exclude actually the payroll, then we are closed to 6% in staffing and in-house in terms of growth. So, that's close the 7% reported in September of ABU growth, ABU growth. So, we are just below market. Something to do that we also let go of some unfavorable margin contracts. So, that's the reason why the margin is stabilized.

<Q - Marc Zwartsenburg>: Yeah. In terms of investments, would you say, we've pushed a bit higher on top line to repair, say, the gap from payroll or is that not the strategy currently?

<A- Robert Jan van de Kraats >: Yeah. We try to invest, of course, where we have to invest. So, our in-house business is growing at 10%. So, we still are investing there. And, of course, we invest in perm. And that's why we also grow with 25%.

<A - Robert Jan van de Kraats >: But the focus remains that we want to get closer to market. But it takes some time because of the headwind we have with the payroll in this.

<Q - Marc Zwartsenburg>: Yeah. Now, that's very clear. Then my second one. Robert Jan, you mentioned something on the leverage ratio. I didn't get that completely. Was that including also the cash-out for Ausy or is that expected then in Q1 next year?

<A - Robert Jan van de Kraats>: Yeah. That's expected Q1 next year. So, it includes the Monster outflow for the acquisition, so below 1.0 times EBITA.

<Q - Marc Zwartsenburg>: Yeah. Yeah. And maybe on that last one, digitization. Is there a plan B if Monster, of course, it's still a few days, a bit early days. But what if you don't reach your targeted tender ratio? Is there a plan B that you say then, we have to go a different route and more in line with what you were saying last week. Do they have a different approach to digitization?

<A - **Robert Jan van de Kraats** >: Too early – Marc, too early...

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

<A - **Robert Jan van de Kraats** >: ...our offerings until Friday midnight. It's a good offer. It has the support of the board of Monster Worldwide and we'll know more at the end of Friday.

<Q - **Marc Zwartsenburg**>: That's true. Okay. Maybe a last one on Germany if I may. Do you expect some impact from legislative changes that kick in for the 1st of January. Is that going to impact? Do you see any clients reacting to that?

<A - **Jaques van den Broek** >: The legislative changes probably won't kick in the 1st of January, Marc. So, the new bill on contemporary labor and freelancing is being read in the Bundestag last week. So, that means that it's getting closer and closer to final. But then, as you know, in Germany, the law is sort of the basis for negotiations. So, it's a bit early to really know what the end effects will be but we'll keep you posted as we get more clarity.

<Q - **Marc Zwartsenburg**>: Yeah. Yeah. Thank you for taking all my questions.

Operator

The next question comes from Konrad Zomer from ABN AMRO. Konrad, please go ahead.

<Q - **Konrad Zomer**>: Hi. Good morning. My first question is on Monster. Can you share with us why you sound so confident you will be able to close this deal in the fourth quarter? And my second question is on Obiettivo Lavoro. From memory, revenues of that company before you acquired it were down sequentially for quite a few quarters. Can you confirm that is because they were so busy talking with you or do you think that might be something to do with their business profile in the Italian market?

<A - **Chris Heutink**>: OL, you see that Randstad Italy is growing at a very high pace, double digits, as mentioned before. OL is more on the flat growth ratio, but there's also the market in Italy. So, we're performing actually very well at Randstad Italy. OL, as compared to market, more or less flat. And we will, of course, try to improve that growth of OL when we go to the integration.

<Q - **Konrad Zomer** >: And congrats on Monster. In the documentation, you can read that we thought quite well about our offer. And so, I stick to the comments that I just gave. We'll know more on Friday.

<Q - **Konrad Zomer**>: Okay. Well, if I can just ask one more question on Monster then. We've seen the revenue declines at Monster in the last few years. Do you think that if they become part of Randstad, that the opportunity that some of your bigger competitors have to keep using Monster that they remain unchanged or would it make sense for some of them to move to another online job order, if I can say to that?

<A - **Robert Jan van de Kraats** >: Yeah. Konrad, these are sensitive details and you should assume like in previous acquisitions where we built quite a track record that we took everything into account when coming up with our valuation. And from that, we have draft our pricing. So, we have included whatever we thought was rightful to include.

<A - **Jacques van den Broek**>: And Konrad, very happy to talk to you about the plans with Monster if it's part of the Randstand Group. So, stay tuned.

<Q - **Konrad Zomer**>: Okay. I understand. Thank you very much.

Operator

The next question comes from PietHein from SNS Securities, please go ahead.

<Q - **PietHein**>: Good morning, gentlemen. I also have a question about Monster. This transaction actually quite surprised me, given your strategy in U.S. professionals. You also say that for now you will not acquire, let's say anymore at least for the time being in U.S. professionals or at least overall. I think that was one of your ambitions to step up. I mean, I heard your comment towards Konrad. Can you please elaborate a little bit more about the strategic rationale why you intended to buy Monster? And what the further expectation and developments you anticipate for U.S. professionals business.

<A - **Jacques van den Broek**>: No. The answer is no. So, you've seen us issued a press release. That's the information that we're ready to give now and we don't think it's the right moment to elaborate and certainly not in a quarterly call on a company that's not ours yet. So, again like Konrad, stay tuned. More to follow if the deal was concluded.

<A - **Robert Jan van de Kraats**>: And Pete, our M&A strategy. We have identified sort of a three dimensions. One was to improve our footprint in the staffing space. Secondly, we said, we have – we see an opportunity to improve our footprint in the professional space in selected markets. And finally we said we have to gear up our digital capabilities. These three were drivers for our M&A and that's why this – at least from that perspective, fits in.

<Q>: All right. I won't go hard on that. I eagerly anticipate more news coming from you on this deal.

<A>: You go to – Thank you.

<Q>: Thank you.

Operator

The next question comes from Suhasini Varanasi from Goldman Sachs. Please go ahead.

<Q - **Suhasini Varanasi**>: Hello. Good morning. One thing on temp gross margin, please. With the pricing pressure that you mentioned and the effect of negative 10 basis points impact, when I compared for the last four quarters, where you have seen either an improvement in the temp gross margin or stable gross margins, should we understand that the market conditions have not tightened and probably this pricing pressure is here to stay?

<A - **Robert Jan van de Kraats**>: Yeah. This is a question that we can very much understand. We look at it ourselves. So, the acquisition in Italy came in with lower-than-average gross margin and earnings, however we the Nordics acquisition offset it. And the Japanese one came in as well with higher but that's less significant in size. It's roughly one-sixth of the size of the Italian acquisition.

<Q - **Suhasini Varanasi**>: Okay. I understand. Thank you. And when it comes to perm business, growth appears to have moderated a little bit in Q3. Do you find that maybe the macro has – it's just a reflection of the macro conditions that have changed? Will be happy to get your views on what you're seeing out there in the market on perm.

<A - **Robert Jan van de Kraats**>: Well, we remain clearly focused on this. We remain with quite some expectations here. Last year, we have seen 13% growth in, I think, Q2, Q3 and Q4, and the first quarter was 17% growth. So, the comparables aren't easy, but we continue to have quite an ambition in this space.

<Q - **Suhasini Varanasi**>: Thank you.

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

Operator

The next question comes from Matthew Lloyd from HSBC. Matthew, please go ahead.

<Q - **Matthew Lloyd**>: Good morning, gentlemen. I just want to follow up on this subject of price pressure. And I was trying to understand if we take perhaps the temp margin, how much of that is the mark up or the gross margin

over wage on placement moving? And how much of it is rolling in ever more ancillary services, we have onboarding, all of those sorts of things? And is that largely why the SME margins are better?

<A - **Robert Jan van de Kraats** >: That's a tough and somewhat broadly-formulated question. The temp margin we're talking to is pretty much a like-for-like temp margin and clean, which is again, as Robert Jan, alluded negatively influenced by the Obiettivo Lavoro margin. By the way, as Chris said, Obiettivo Lavoro will start integrating and creating synergies as of Q1 next year. So, then the overall improvement of Obiettivo Lavoro will increase again. But, yeah, there are not much happening there. An RPO was not included in the temp market either. So that's why we mentioned that it's rather clean.

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

Operator

We have a follow-up question from Marc Zwartsenburg from ING. Marc, please go ahead.

<A>: Marc, one question.

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

<A>: One more question, Marc.

<Q - **Marc Zwartsenburg**>: Yeah. Sort of. Yeah. Sort of. Yeah. On SG&A, you had quite EBITA on your guidance. Can you explain what has driven that because your growth is accelerating? You're also guiding for more or less flattish development going into Q4. What is driving that? And how should we look to that SG&A going into next year? Well, you see some IT cost savings. Are you thinking, is that going to drive your conversion ratio towards 50% perhaps next year?

<A>: Marc, with relatively limited growth and uncertainty when we exited Q2 into Q3, organizing our OpEx development becomes more and more relevant. So, we have been managing it very tightly throughout the quarter, and that's what you see coming through. And in our business, we can manage it roughly on the short term. So, our operational leverage through the incremental conversion ratio is a very relevant indicator in our business.

<Q - **Marc Zwartsenburg**>: Then perhaps, the final one, the gross margin impact from Ausy, perhaps, that should be a positive for your growth margin next year. Could you indicate how much basis points that would add roughly?

<A - **Jacques van den Broek** >: You can follow the results of Ausy. There are also a stock list, so you can make the calculation. And they're clearly contributing positively both through GM, gross margin and EBITA.

<Q - **Marc Zwartsenburg**>: Yeah. All right. Thank you very much.

<A - **Jacques van den Broek** >: You're sure, Marc, no further questions?

<Q - **Marc Zwartsenburg**>: No this is it.

Operator

We have no further questions, so I'll hand back to you to conclude the call.

Excellent. Thank you so much. Well, thank you for joining us in this call and we're looking forward to connect again. That will be next year, February. We have decided not to have a Capital Markets Day in the month of November because we have insufficient things to share with you at that point in time. But one way or another, we'll make sure that we'll plan to be back with you on that as soon as possible. The publication of our fourth quarter result is planned for February 14 next year. Thank you so much, and have a good day. Bye.

Operator

This concludes the call, ladies and gentlemen. Thank you, all, for joining, and enjoy the rest of your day.