

Q3 2017 Earnings Call

Company Participants

- Robert Jan van de Kraats
- Jacques W. van den Broek

Other Participants

- Robert Plant
- Hans Pluijgers
- Suhasini Varanasi
- Tom Sykes
- Kean Marden
- Marc Zwartsenburg
- George Gregory
- Konrad Zomer
- Anvesh Agrawal
- Matthew Lloyd

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the Randstad Third Quarter 2017 Results Call. My name is Seth, and I'll be the coordinator for your call today. I'm now handing you over to Robert Jan van de Kraats to begin.

Robert Jan van de Kraats

Thank you so much. Good morning, ladies and gentlemen. Welcome to the discussion on the Q3 results. I'm here with a few people including Jacques van den Broek and David Tailleux. I'm going to take you through a few slides to elaborate on a few things that we consider to be important to discuss with you. And then there is time for Q&A. In the meantime, I hope you will enjoy our new house style which is part of our revised brand promise, Human Forward.

I'm moving to slide 6, right away, slide 6 the Q3 results, strong top line momentum continues. It's the continuation of the Q2 growth. Organic sales growth is stable, as I said, and it's driven by further momentum in Europe, which is mainly the result of 1% tougher comparables at the group level compared to Q2. Market share gains are coming through in France, Germany, Belgium, Italy, UK, Canada, Switzerland and Spain. So, that is a clear result of the strategy paying off.

The gross margin came in at 20.1%, which is 30 basis points sequentially lower, which is the effect of working days impact and the mixed impact together, 30 basis points. Monster also had an impact here, and of course the U.S. hurricane, there was some impact as well. We believe that growth for the U.S. would be adjusted from just a few basis points north of 0% to 1%. And finally, fast growth in Inhouse is coming in nicely. It has an impact on the mix on the gross margin, but it comes in with very good EBITA, as you know.

40%. If you look at the last four quarters, ICR, it's 34%. So, for us, that's still a challenge to improve it further and which again goes back to the balancing act that I referred to in previous calls between, on the one hand, realizing a solid ICR and, on the other hand, ensuring that we make the right investments in our digital strategy. And that challenge, that balancing act continues.

EBITA comes in at 4.9% compared to 5.1% last year Q3. And if you look at the underlying elements, it's working day impact here, one working day impact, and that equals 15 basis points. And it's the impact of Monster and digital investments, roughly 30 basis points. So, if one would adjust for that, EBITA would arrive close to 5.4%.

And then, finally, our perm also good growth at 10% versus 7% in Q2, partly because of comparables. Just want to point out that France continues to grow at a pace of around 40%, which is mainly the result of applying big data technology.

Slide 7, you see the regional split here with Europe leading the way. Europe stable at 11% compared to 11% in Q2. North America, as I mentioned, zero but, including the hurricane, it would come in at 1%. And also good growth in the Rest of the world. Just wanted to point out that we have great performance in Randstad Sourceright which grew significantly across the board, 12% in North America, 17% in Europe, overall 17%.

North America then on slide 8, stable top line, revenue flat but adjusted again 1%, perm up by 2%. We have, of course, the weather impact also at the EBITA level. We have a relatively large position in the Southeast, roughly 180 branches, but we did not adjust our cost base. So, there is some EBITA impact included here in this result.

Also wanted to point out the U.S. Professionals performance. It still is down, and we are really aiming at repairing that, but one signal coming through. IT up from 2% growth, which we then indicated as coming around the corner now, 4% growth in IT. F&A is still a difficult market.

In the Netherlands, on slide 9, we have a continued focus on profitability, and you can see that in the last line on this slide, the EBITA margin improving. Customer profitability is the name of the game here. And we have skipped a few contracts, roughly €100 million recently of contracts because we feel they would come in with no contribution to the profitability of the company. So, EBITA margin up by 30 basis points despite one working day less.

If we look at Professionals, we see it continuing at its successful track record with a further increased EBITA margin. But also we see the pricing too in this segment. Again, digital paying off nicely. And also in Tempo-Team, we see our Tech & Touch approach working nicely. We'll talk about this more at the Capital Markets Day. Overall, pricing pressure in the Netherlands is easing and probably also some scarcity in the market supports this.

In France, we are very proud of the performance in France. 14% growth again, ahead of the market clearly, but also as I said, continued strong growth in the perm business, continues around 40%. Our EBITA margin improved by 10 basis points, which is the result of some incidentals in last year, but also ongoing investments in further growth in the French market. We still see some pricing impact as previously, but overall, I would say that that is at the stable level. We also see Ausy France growing here in the third quarter compared to Q2, now at 8%.

Our CICE, we see some progress on the Q3 – on the 2013 receivable of €70 million. That's a bit of an unclear process. We now expect it to come in in Q4. We are discussing changes in CICE. It's too early at this point in time to comment on this, but we hope to assess this further and discuss that with you at our Capital Markets Day.

Germany, on slide 11, accelerating to double-digit growth from 9% in Q2 towards 10% in Q3. Very nice to see our SME business outpacing our growth to large clients, but also perm is doing nicely, and the margin is up, the EBITA margin is up despite fewer working days, which has more impact in Germany given its structure.

Moving to Belgium then. Again, this is a very nice story and it continues also into Q3. It looks like slightly lower growth, but that is fully explained by the comparables that have become tougher for this quarter. Growth remains ahead of the market. And actually, that was a promise that we made a while ago that we should come back, lead the markets and we are happy to see the delivery of that ambition.

Iberia, which is Spain and Portugal, also here robust momentum continues. We have staffing clearly, but also perm business continues to grow nicely now at a pace of 23%. The EBITA margin improved to an impressive 5.6% with a very significant ICR, so serious productivity gains of 87%.

Italy continued high revenue growth. Quite a success story here. I mean this is where we started organically, we're now a company heading for a level of €1.4 billion, €1.5 billion on an annual basis. Revenue's up by 27% while just having integrated a company. Inhouse remains the strong growth driver here, which has some impact on the gross margin as I referred to before. And also, on DSO but at the bottom line, it's really very helpful.

In our other European countries on slide 15, you see a selection here. Overall revenue growth is now 13%, improved from a level of 11%. Our EBITA margin is down slightly which is the result of some incidentals in the Nordics and also of lower perm growth in this segment but overall solid revenue growth. In the Rest of the world, growth at 10%, double digit continues. In Japan, growth is stable but the acquisition shows very impressive growth, 19%. And we also have nice growth in Australia at 9%, China 18%, Latin America 19%, and an EBITA margin improvement to 3.3%.

On slide 17, an update on our M&A business. We expect, by the way, the next quarters to have very limited M&A due to our focus on EVA. And also, strategically, there is no immediate need to address those points. So, we are currently not working on anything significant other than to make sure that we create value out of the acquisitions.

Well, you see them listed here. On top, RiseSmart now integrated. Proffice on track. This is the Nordics acquisition where we have finalized our integration completely. Obiettivo Lavoro is ahead. We expect EVA positive territory not in three years, which is our ambition, but also already in two years. Careo the same, 19% growth. It's unavoidable. It's going to arrive at EVA positive territory in two years.

Monster, our revenue decline is more or less in line with Q2; the loss as well. We have gone through the next level of restructuring. We started at the top, new team in place and, now, we are on our way through the company. Restructuring charges included €21 million. We expect more in the next two quarters some €12 million. Payback period will be around 6 to 12 months. Part of that will be reinvested in the business, and we'll discuss this further, all

the changes we are going through at Monster at the Capital Markets Day. But I think important to finalize with here is to point out that we are underway according to our plan. And then we have Ausy, that's very early stages in line with expectations.

Moving on to the financial results on slide 19, our P&L. Just wanted to additionally point out that the reported EBITA includes a negative impact from foreign exchange which is U.S. dollar versus euro of \$6 million. Furthermore, net finance costs are slightly higher. That's not because of interest charges, but that is because of a foreign exchange impact which is bookkeeping only. Tax, the ETR, the effective tax rate remains in the range of 24% to 27% whereas the cash tax rate is around 20%.

Looking at our performance by revenue category, solid growth in our Staffing business, EBITA margin at 5.6% now and on a nine-months basis 4.9% nicely. Inhouse also moving very nicely, 5.3% in the quarter mainly driven by Italy and France. In Professionals, we see a small tick, lower EBITA margin which relates to our U.S. Professionals business which is growing in the IT space, but that – and that requires so many investments in that growth. Our global businesses, the results are fully explained by the inclusion here of Monster which was not there last – in Q3 last year.

The bridge on gross margin, slide 21, this connects Q3 last year with Q3 2017. And if you look at the components, the first one is the temp margin fully impacted by working days effect, 15 basis points, and mix mainly being Randstad Inhouse Services, 20 basis points. So, pricing is more or less stable. Perm placements very minor impact and human resource solutions and the other segment includes Monster. So, Monster is the gross margin business.

Then operating expense is a different comparison. Here, we compare sequentially from Q2 to Q3. Here, you see the part of the foreign exchange which result in a €6 million negative at the EBITA level. Furthermore, I would say relatively stable growth of our organic OpEx, 5% in Q2 but also 5% in Q3. And our main focus is on ICR here.

Then, we have net debt at a leverage ratio of 1.4. DSO is up slightly, 1.4 days and that is due to the inclusion of acquisitions in our book, but also the adverse mix effect here. If you have high growth in Italy, in France and in Spain, that typically has an impact at the group DSO level. Also, the end of the month closed in the quarter which typically does not have a positive effect either. And we have a minor negative effect remaining which we are currently addressing because, for us, this is a key indicator.

Free cash flow at Randstad slightly down due to, again, the investments in growth through working capital for the accelerating top line, mainly again, Italy, Spain and France. Our DSO, as I just discussed in our investments in Monster, some payments, some timing of tax payments throughout the company. Furthermore, nothing special. Our capital expenditures are showing some synergies as well. You might remember that last year, Randstad came in at €80 million, Monster was €20 million, adding up to €120 million. We're now clearly approaching a level below that. And as I pointed out, CICE is expected to be included – receipt is expected to be included in Q4.

And then, finally, our outlook on slide 25. So, in September, the exit rates but also the volumes of early October broadly indicate a continuation of the Q3 trend. The gross margin is expected to be stable sequentially. Please keep in mind here the next point, which is an adverse 0.5 working day impact in Q4; also the planning of Christmas, which effectively is not something we can plan ourselves, but is a bit unfavorable because it's working day, so we'll see what comes out of that.

Our operating expenses are expected to be broadly stable sequentially, which means that we have some Monster savings, but some increases that are being offset by that. Our comparables are a bit tougher in Q4. And as I said, M&A activity will be limited in the coming quarters. And we're happy to discuss further details, especially on our digital strategy, on our Tech & Touch strategy, and the impact of that on our results, mainly thinking about growth opportunities. We'll discuss those with you on November 21 in London. Hope to see you there.

So, now, it's time for Q&A. Please, operator, go ahead.

Q&A

<Q - Robert Plant>: Morning, everyone. In terms of the Netherlands, where you've shed low margin contracts, did any of the customers decide to stay with you when you adjusted pricing? And to what type of competitors do you think those contracts went that you chose not to keep? Thank you.

<A - Jacques W. van den Broek>: Yeah. Good morning. Jacques here. Of course, when we shed a contract, these clients have not decided to stay with us. There are underlying, of course, quite some clients who do want to stay with us. We do see some early signs of clients who went away, but because of pricing is that they are slowly coming back. I think this is early days. We're not getting our hopes up, but certainly, we're happy with our consistency here which in the Dutch market is – well, a little over a year that we're doing this. So, yeah. And where we want to grow,

as Robert Jan mentioned, where we want to grow, we are growing, so very happy with that. Yeah. We see it moving to various competitors.

<Q - Robert Plant>: Okay. Thanks a lot.

Operator

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

<Q - Hans Pluijgers>: Yes. Good morning, gentlemen. Coming back on the Netherlands. You indicated pricing in principle is starting to stabilize, but at the same time also at the beginning of the year, you indicate that you expect, let's say, to start growing more in line with the market full year but that's not happening. So, could you a little bit, let's say, explain what's happening? Have you become, let's say, more fierce on contracts, so are you, let's say, playing the game to get, let's say, in the longer term the prices up a little bit, so benefiting, let's say, from less price pressure maybe even some shortage in some segments?

Then on U.S. Professionals there's, let's say, a discussion we've had for some quarters now that you want to improve there the performance, still not happening. What's your feeling? How do you compare to the market? Is it not something really more the market, or is it really something internally? And could you give us some more detail on what you precisely are doing and when do you expect, let's say, that those benefits are coming through?

<A - Jacques W. van den Broek>: Let me start with U.S. Profs. Actually, it's a mixed picture. We're very happy with our technologies, our IT business. This is the biggest business, €1 billion with the 4% growth. They are at market. So, that's quite a turn, and we're happy with that one.

And then there's the white collar F&A business, and that's not yet there. Similar strategy as we applied in technology, we changed management and also beefed up the way we steer the business. That takes some time. So, that's the last remaining weak spot in our professionals portfolio. And again, in London, Linda will give you a bit more elaboration on how we're treating this and what we're doing to also turn the corner in our F&A business.

Back to the Netherlands, it's always tough to say what happens if you – Robert Jan alluded to the €100 million. This is not many clients. It's just two or three big clients. But at the end of the day, you say goodbye to them because they don't want to play the game on pricing. Definitely, for us a long-term play here. We are the market leader, and we want to stay ahead of margin development here and give a good example. And you can see that in our results. We said that we would very much focus on results, which we're doing.

Yeah. Time will tell. As I mentioned, there are some clients who do see not the benefits of changing, and when they don't get the right people, they might come back, but we'll keep you posted on that one.

<A - Robert Jan van de Kraats>: Yeah. And, Hans, keep in mind that these are not just low EBITA margin contracts. These are no EBITA margin contracts.

<Q - Hans Pluijgers>: Okay. Maybe one follow-up on that. Let's say your one of the main competitors, which was one of the key drivers of price fight, your friends, how they are behaving because I understand there's quite some restructuring there going on. How do you see them behaving in the market?

<A - Jacques W. van den Broek>: Yeah. They've turned the corner here. They've seen the light but as other competitors.

<Q - Hans Pluijgers>: Okay. Thanks.

Operator

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

<Q - Suhasini Varanasi>: Hi. Good morning. Thanks for taking my question. Just one, please. I realized that you've made a lot of investments in Monster. It's been a drag on the margin this quarter. I'm just wanting to get your views on when margins will start showing improvement, given the top line growth trend you're seeing. Thank you.

<A - Robert Jan van de Kraats>: Yeah. The margin improvements, that's a fair question, and that's exactly the center question that we're going to address at our Capital Markets Day in November. So, I'd like to come back to that more extensively in November.

<Q - Suhasini Varanasi>: Thank you then. Maybe can I ask if Q3 is probably the trough?

<A - Robert Jan van de Kraats>: Can you repeat your question?

<A - Jacques W. van den Broek>: Q3, is it trough?

<A - Robert Jan van de Kraats>: Oh, Q3, yeah. We expect an improvement of the result of Monster in Q4. So, it should get better in Q4. That's the expectation we have for Monster. And we'll also elaborate...

<Q - Suhasini Varanasi>: Thank you very much.

<A - Robert Jan van de Kraats>: And we'll also elaborate on further developments at Monster at the Capital Markets Day. We will do that extensively.

<Q - Suhasini Varanasi>: I appreciate it.

<A - Jacques W. van den Broek>: And, well, I don't know if we mentioned that already, but Chris Kibarian, our CEO handling Monster, is going to be on stage also. So, it's from the horse's mouth.

<Q - Suhasini Varanasi>: Perfect. Look forward to that day. Thank you.

Operator

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

<Q - Tom Sykes>: Yeah. Morning, everybody. Excuse my sore throat. But just on – a slight follow-up on the last question which hopefully you can give a bit more detail. Just what's been holding back the leverage in France? Obviously, you're saying Inhouse is very strong, and that should be margin accretive and your perm is very strong. So, maybe if you could just give a few more details on that.

And then, would you expect – if you do not have a hurricane effect, again, do you expect some improvement in the U.S. margin? I just noticed, I think, the number of outlets you have in the U.S. is actually edging up slightly. Is that a sign that you think the U.S. market is getting stronger, please?

<A - Robert Jan van de Kraats>: France, Tom, that – as I think I referred to it, the comparison with last year was a bit challenging because we had some incidentals included in last year. But the second point is – and also that will be elaborated upon at the Capital Markets Day that France is leading in organic digital development, which are already coming through, for example, in the perm growth of around 40% in France. But that, of course, requires investments. And that's the other explanation for the lower leverage in France.

And then your question on the U.S., we...

<A - Jacques W. van den Broek>: Yeah. Well, there was a hurricane effect, so that will ease out. But we're currently not seeing a strengthening of the U.S. market, not a deterioration either, so again a pretty flat peak.

<Q - Tom Sykes>: Okay. And a follow-up on your digital comment. Are you able to say how much of the 50-basis-points drag you saw was digital investment and what country is that? You alluded to France. Was that particularly in, say, France and the U.S.?

<A - Robert Jan van de Kraats>: Yeah. Well, it's the total investment, the biggest part is Monster and the other part mostly relates to France. But again, that is also something we have on our agenda at the Capital Markets Day to not only show you the cost side but especially the opportunity side.

<Q - Tom Sykes>: Yeah. Okay. All right. Thank you.

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

Operator

The next question comes from Kean Marden from Jefferies. Kean, please go ahead.

<Q - Kean Marden>: Morning, gentlemen. I have two, if I may. First of all, on Monster. I'm wondering if you could share with us, please, the reorganization costs that you've taken to date relating to that business and also just give us an indication when you're assessing value creation from that transaction, do you add the reorganization costs into the proceeds that you paid for the business in the first place?

And then secondly on France, I wonder if you can give us a breakdown, please, of your temps, so the percentage of temps that you have there, the full – within the 1.0 to 1.6 times minimum wage and the proportion that fall between 1.6 and 2.5? Thanks.

<A - Robert Jan van de Kraats>: The answer to your second question is no. I don't know by heart. And then your question on Monster, so as I said, we have a charge of €21 million this quarter. We expect more in the next two quarters to probably some €12 million. And this relates to restructuring in terms of people but also we have some significant lease contracts where we have provided for because we will not use that space anymore. So, all of this is included. The payback term in the U.S. typically also is between 6 and 12 months.

And as I said, most of – quite a significant part of this will be reinvested in the business again, but also part of it will come through at the bottom line. And we'd like to discuss those details with you in the context of our overall plan that will be presented by our leader of our digital business in the U.S. on the Capital Markets Day.

<Q - Kean Marden>: Okay.

<A - Jacques W. van den Broek>: Maybe one small follow-up on France. Your question about the wages is probably related to, let's say, a message that there might be a change in CICE with more subsidies at the low end and slightly lower. We don't see that yet. We've not seen that as a fact. So, in that sense, we're also not analyzing our sales mix or our wage mix because, today, it's not relevant in that sense.

Second one is on – just one small thing on Monster. Today, all Randstad consultants in Europe and also in U.S. are using all Monster products in their day-to-day business. So, we are creating value in Randstad already because of Monster. So, that's, I think, an important one to mention here.

<Q - Kean Marden>: Okay. Sorry and forgive me if I'm not fully understanding the answer. So, just to check, do you – when you're calculating EVA, do you add in restructuring costs? I think you talked about payback. My question was more on EVA calculation. So, does EVA for you, just the cost of the assets basically be the sum of a restructuring plus what you paid initially? I think the answer is probably yes.

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

<Q - Kean Marden>: Just to check. Yeah.

<A - Robert Jan van de Kraats>: Yeah, Kean. We're trying to do this correctly, so you're right. Yeah. Yeah. Integration costs, restructuring costs are included in our calculations.

<Q - Kean Marden>: Very good. Thank you very much, gentlemen.

<A - Jacques W. van den Broek>: So we have an ambition to – sorry, Kean – we have an ambition to include or to be at EVA positive in three years, which we are well on our way for most of our acquisitions. We outlined that Monster is more of a strategic acquisition that makes that more challenging. And that's the discussion we'll have at the Capital Markets Day.

<Q - Kean Marden>: Yeah. Yeah. Thank you again. Cheers.

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

Operator

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

<Q - Marc Zwartsenburg>: Yes. Good morning. My first question on tax rates. Robert Jan, can you help me a bit with the potential impact of lowering of the U.S. corporate tax rate, and also the same for – potentially for the Netherlands in terms of, first, for your P&L guidance and the impact on your cash pooling, et cetera, but also perhaps for the U.S. specifically the impact on tax loss carryforwards particularly here to the Monster acquisition? Thank you.

<A - Robert Jan van de Kraats>: Yeah. Marc, as always, you're a bit ahead of the troops. We have to assess this. I mean the plans in the U.S., we of course are closely monitoring those. One way or another, there will be a reduction, but there will also be an increase in other spaces. So, it's too early for us to share this with you. We'll do it at the earliest possible momentum. And also in the Netherlands, it's clear there will be a reduction of the tax rate, but at the same time, it has also been announced that it will be repaired one way or the other. So, we need to assess that more in detail. So, we'll share it with you as soon as we have a full picture. Sorry.

<Q - Marc Zwartsenburg>: Maybe one follow-up, for the Netherlands, there's no compensating staff that will affect you. Would it still be a positive for you given the tax planning you have or not?

<A - Robert Jan van de Kraats>: Certainly, will it be positive. Thank you.

<Q - Marc Zwartsenburg>: Okay. And then my second question on regulation, can you perhaps give me a bit of an update on the latest regulatory news in the Netherlands? And the same for France, what the latest status is in terms of direction from government talking about further deregulation or changing of flexibility in the Netherlands and France. So, anything to add there?

<A - Jacques W. van den Broek>: Yeah. On the Netherlands, we don't expect a lot of effect on our business. So, first of all, there's this change that you can only again can give three contracts for a limited duration. That goes a bit up and down. So, we'll wait and see. Then, there's some tax on payrolling. This is mostly because, in this sector, there's a lot of misuse. So, we're very happy when the government treats misuse but, again, we don't expect a lot of effect here.

On France, there's no new formal legislation. So, in that sense, we're not seeing anything. What we do like in France is the overall optimistic sentiment in the country. And, apparently, it looks like the fact that the regulation is now coming through without the Street opposing this massively, so that's good and necessary.

<A - Robert Jan van de Kraats>: Marc, and I have some follow-up comments on tax. Please remember that even in difficult years, the companies continues to be profitable, which means that any reduction of the corporate income tax rate should be, in the long run, positive for the company. So, even though we might have to revalue some of the net operating losses, the economic impact of the sort of lower charges against future profits will also always be more favorable because we'll have future profits. And even in 2009, the company remained profitable. So, keep that in mind. I don't know the number, but I know it's a plus.

<Q - Marc Zwartsenburg>: Okay. Yeah. That's very helpful. Thank you very much.

<A - Robert Jan van de Kraats>: All right.

Operator

The next question comes from George Gregory from Exane. George, please go ahead.

<Q - George Gregory>: Good morning. Two, please. Firstly, just on the tougher comparatives, you helpfully called out 2.4%. How does that phase October through December, please, just so we get a sense of how that plays through? And secondly, on CICE in France, obviously, the reduction coming through in 2018, just any thoughts as to how we should think about that dropping through the P&L and extent to which you think you might be able to offset some of that? Thanks.

<A - Jacques W. van den Broek>: Yeah. As always with CICE and then the reduction, we'll try to negotiate with clients as tough as we can, and try to limit the negative effect here. You also see in France that the labor market is tightening. It's very early days but certainly, in many segments, it's increasingly tough to find people. So, hopefully, we'll get a good negotiation situation with clients.

But you know our stance here, we think the money is ours. So, that's how we start these negotiations. And if clients don't want to play ball and the margin, like in the Netherlands, drops below a certain level, then we'll say goodbye to clients because we didn't emphasize France yet. But in France, we're still saying goodbye to clients also. So in that sense, Robert Jan's comment that we are above market including all these is quite impressive.

<A - Robert Jan van de Kraats>: And on the tougher comps for last year's fourth quarter, the toughness increases through the quarter because December last year, as I referred to before, Christmas was partly, I think, in the weekend but certainly at least one day but maybe two. I don't remember that exactly. But in our numbers, we can see that December was the strongest month of the quarter, and this quarter, it will be more challenging. So we'll see what comes out of that.

<Q - George Gregory>: Okay. Thank you.

Operator

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

<Q - Konrad Zomer>: Hi. Good morning, gentlemen. My first question is on Monster. You mentioned the €12 million restructuring charges that you might see coming. Is that per quarter or is that a one-off on top of the €21 million you mentioned today? My second question is on CICE. Can you explain in a little bit more detail why you didn't get the €70 million payment in Q3 and now expect it to happen in Q4? Is that the first of many delays or is this just a one-off that they explained to you in detail? Thank you.

<A - Robert Jan van de Kraats>: Yeah. On Monster, the €12 million, that's the additional restructuring costs that will come in in Q4 and Q1. So, it will be divided over those two quarters and we'll have to see what will be the precise number. And on CICE, this is a new process. And we can see now that the French government has been handling the smaller amounts already. And we have information now that the bigger amounts are close to being finalized. So, this is a learning process.

We have analyzed in the past if selling those receivables would make sense. But economically at Randstad, that would bring a significant cost, as a result of which we have decided not to do that. And we will sort of analyze the process when having received the monies in terms of the impact going forward. But at this point, we expect it to come in in Q4.

<Q - Konrad Zomer>: Okay. Just a quick follow-up on a different subject. It's North America Professionals. You've put new management in. You've been looking at it for quite a few quarters. When do you think we can see the improvement coming through in terms of revenue growth?

<A - Jacques W. van den Broek>: Yeah. You're talking about F&A, Konrad?

<Q - Konrad Zomer>: Well, more in general. We know that IT was up 4% but the minus 2% that your Professionals revenues generated in Q3, when do you think that could...

<A - Jacques W. van den Broek>: So it is because of F&A. So, two to three quarters before we see improvement.

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

Operator

The next question comes from Anvesh Agrawal from Morgan Stanley. Anvesh, please go ahead. Hello, Anvesh. Your line is now open.

<Q - Anvesh Agrawal>: Hello. Can you hear me?

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

<Q - Anvesh Agrawal>: Okay. Sorry. I have a few. The first is on France. Can you talk about the big data technology that you're using there, what exactly you're doing with it? And the second just a clarification on your outlook statement. When you say October volume broadly indicate continuations of the Q3 trend, what does broadly mean? Is it fair to assume it's slightly below given where the comps are?

And third, on the free cash flow, it's been going down Y-o-Y for the last few quarters. Now, I appreciate there's an impact from working capital and digital investments. But when should we expect it to turn around? Thank you.

<A - Robert Jan van de Kraats>: Yeah. I'll deal with your second and third question first. The outlook October what we measure is every week's volumes of number of people that we place. And on the back of that volume trend, we come to the conclusion that we think it's broadly in line with what we have seen in the quarter. So, that's why we are using that word. We don't have the precise revenue numbers. But there's no reason to believe it will be below or north of it. It's more or less broadly in line, and we'll have to see what comes out of that. We still have to complete the month of October.

And then we have the free cash flow. You're pointing that out and that is a priority for us, as I mentioned. This year also includes significant outflow because of Monster. It's the EBITA result and, on top of that, the CapEx. So, we'll discuss with you how we see that improving going forward. The CICE receipts will increase in the future from the expected €70 million now to €100 million going forward. And as I mentioned, we are tightening up again our processes on the receivables management.

And the discussion on customer profitability is not only about price. There's also on payment terms. So, that is something where some of our clients that feel they are very sustainable in their business still are asking or challenging us for payment terms of 120 days, which is a very nasty business because we are incapable of delaying payments to our flex workers. So, that is a priority. And I think all of that should result in improved free cash flows going forward.

<A - Jacques W. van den Broek>: And, of course, we're very happy with the fact that we're financing growth, of course. You've seen a peer, we grow twice as fast, so we need to finance that. We're very happy with that problem. On France, so we're going to have leaders of our businesses on stage at the Capital Markets Day because we firmly believe digital is not about a tool or buying a tool. It's really about a changed way of working. So, we'll have a French leader and a Dutch leader on stage to tell you all about how technology fuels our business growth and how our consultants use that. So, happy to talk about that more elaborately. I don't think a call like this really does it justice.

<Q - Anvesh Agrawal>: Okay. Just a follow-up on the free cash flow. You said there are some CapEx related to the Monster but, earlier in the call, you also flagged that you are now achieving some sort of synergies. So, what's the level of CapEx you are still making for Monster?

<A - Robert Jan van de Kraats>: Well, when we acquired Monster, it came in with roughly €40 million. And now, it's quite a bit below that. Let me stick to that number.

<Q - Anvesh Agrawal>: Okay. Thank you.

<A - Robert Jan van de Kraats>: You're welcome.

Operator

We have a follow-up question from Hans Pluijgers from Kepler Cheuvreux. Hans, please go ahead.

<Q - **Hans Pluijgers**>: Yes. More question on the ICR. You indicated underlying, it is over 40% adjusted for the working days. But is that, let's say, at operational leverage level or is it also including your investments in digital? Because if I take those into consideration, I don't come to the over 40%.

<A - **Robert Jan van de Kraats**>: Yeah. So, it's including our overall operational expenses, which includes the organic digital, the developments in the company, the organic digital investments. So, for example, what we just referred to the big data in France, it's all absorbed through regular OpEx.

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

<Q - **Matthew Lloyd**>: Sorry, gentlemen. You thought you were going to escape but just one question. In some markets, if one delves down into the sort of wage rate inflation numbers, you can see some slightly elevated levels, security guards at 10% in the States and some IT doing almost double-digit in parts of Europe. Are you seeing any pockets – you mentioned the scarcity helping pricing a little. Are you seeing any pockets of emergent wage rate inflation? Some of your peers seem to be.

<A - **Jacques W. van den Broek**>: So, we mostly see it – but the only sector we really see it has been in blue collar U.S., but that's already quite a while. In Europe, not so much. No. No. It's mostly – in Europe, it's mostly a volume growth, which in a way is good.

<A - **Robert Jan van de Kraats**>: There are discussions about this. So, we might see that coming through going forward, but in our books as per today, very little.

<Q - **Matthew Lloyd**>: Do you monitor sort of wage rate inflation? Do you get reports on it yourself, or do you see the volume, and then the sales, and sort of do a calculation?

<A - **Robert Jan van de Kraats**>: Yeah. We do that kind of analysis. We, of course, follow tightly the average – the bill rate per hour. So, what do we charge our clients per hour. And that helps us to understand what's happening.

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

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

Robert Jan van de Kraats

All right, operator. Thank you so much. Thank you all. It's good to discuss with you this quarter that was a pretty strong quarter, I would say. We're looking forward to discuss the opportunities in the space of Tech & Touch digital at the end of November, 21st of November in London. Hope to see you then. Bye-bye.