



Q4 & FY Results 2014

Thursday, 19th February 2015

Transcript produced by Randstad
Diemen

Arun Rambocus, Director Investor Relations, Randstad

Okay. Good morning everybody. Welcome to the Randstad's Headquarters. Special welcome to the analysts, journalists, our board members and all the other Randstad's employees and also a special welcome to the people listening to our audio webcast.

Today is the Presentation of our Q4 and Full-Year Results. We have a very predictable pattern. Our CEO Jacques van den Broek, will walk us through the highlights both strategically and also the key highlights. And then Robert Jan will take over on the financials. We finish up with the Q&A, and of course the fact that all our other board members are present means they are welcome to support any questions you might have of course.

Thank you very much. Final remarks before Jacques starts, our annual report is also published today. So for more details on our results, please refer to our website for more insight. Thank you very much. Jacques, floor is yours.

Jacques W. van den Broek, CEO, Randstad

So good morning everyone also from my part here in the room and everybody online both from financial community, but also our colleagues across the world.

Yeah, fourth quarter and full year, title says it all "a solid performance in Q4 and good start of '15".

So, let me take you through a few highlights here. We talk about our performance by the way before I move on, just wanted to mention that our annual report is online and as the Dutch people will know we're not going to get the prize this year for the best annual report because we are eligible for nomination - because we won two years ago. But still a lot of hard-work by a lot of people here and we are very happy again with the how it turned out. So please go online and check it out.

Continued profitable growth, we have seen quite a stable year. So after Q1, where we had 3.6% growth, we have a pretty stable 4% throughout the year, against a more challenging comparison base. So in that sense there is strengthening and you see that also into January as we mentioned. Very happy with our result in permanent placements. We've seen an increasing growth here, so growth through the year 14% but 21% in Q4 this is very broad based. It is also in Europe, also in countries like France and Germany and the Netherlands. So we provide 25,000 people into fixed jobs per quarter. And you can imagine that the growth rate of 21% that impact on the market is definitely increasing. Pretty stable operating expenses and it of course translates into a great incremental conversion rate for Q4 but also for the year, 77% for the full year and 96% for Q4.

So, bit of a broad look at the market, the rest of the world doing very well. As you know, these are investment areas for us. So in a way ahead of people making full productivity and making money, we invest in more people. You should think markets like India, China, Singapore, Hong Kong where we are creating a top three position for the remainder of the mid-term. So the BRIC countries going to have 6% of the total world market. They are expected into 2020 to be 9% total investment area, but we are a top-three player in the India today, we are a top-three player in China today, and we want to really invest and stay ahead of that market development. North America has been a very stable business for us throughout the year. As you know, economic numbers in U.S. are great and stable and going forward, so absolutely good. Europe, a mixed picture. Iberia, Italy, Switzerland, Poland doing very well. The Netherlands improving throughout the year, and France still at a tough Q4, but a far better start of the year. And Germany remains sluggish. I'll get into that one definitely later. I mentioned emerging markets.

Australia is not so much an emerging market. It's a mature market, but we grow more than 20% there, so very happy with that performance on the top line. We need a bit more Perm, Australia is an Anglo-Saxon section market so permanent placement is very important there. That still needs a bit more growth. And then, Japan, an acquisition from four years ago, or three, very happy with our performance there, welcome.

So this is our strategic roadmap. We're going to come back on the roadmap. We presented this one to you at the Capital Markets Day, which is very much what we are building in the company, where we are improving in the company. So this is the slide I showed you in November. And a few highlights, of course, starting at the bottom today. Good improvement from 3.5% to 4.1% EBITDA margin. Good growth in revenue and a correspondent growth in EBITDA. Our activity levels, as mentioned, pretty consistent growth throughout year. Activity level meaning phone calls to clients, visited clients, candidate send outs, so candidates propose to clients for fixed jobs. A 30% increase and we definitely see that into improving performance in many countries. Productivity up, Perm as I mentioned, certainly SME in the Netherlands and in France picking up there. France is tough market, but still growth in SME which is a strategic target for us in that market, which is a low margin market and we want to improve our business mix, so as a percentage less growth to big clients and more SME. And in the Netherlands very happy there our SME part of the business at Randstad grew 15% which is ahead of the Dutch market again a result of very consistent commercial activities in that part of the market and then of course if the economy improve somewhat you benefit from that development.

As mentioned 60, 70% cost savings in the back office to realize in the next two years. You've seen us taking provisions to lay off people certainly in the Netherlands and in some other countries. In the Netherlands that is now behind us so the 250 people in head office, back office sanctions have left the company, but will be in a setting where we are trying to find new jobs for them. In 2012 where people left us in the Netherlands 80% of people found a new job in nine months so definitely that's a target for us now for this 250 people to help them to find the new job or optimistic on that happening.

Sourceright, is our business that takes care of the demand of large clients organizing on their behalf staffing supplier so that they have one point inventory that's called MSP and then taking part of their recruitment function which we call RPO recruitment process outsourcing. In Europe we found that although we are geographically organized the Sourceright business is better organized on a European level, clients are increasingly international we want to run as many of the recruitments within that business through our sourcing center in Budapest which has a low cost and a high quality of the searches in there. So we think that's a good step towards organizational change to be better equipped for the developments in the market. Vertical approach we've seen in our own business in the U.S. with suddenly also with successful competitors that in the professional business they organize themselves in verticals meaning that they can provide any profile from the low end profile to high end profile in IT and engineering and finance to one client it makes you more attractive as a supplier.

We are organized like that in U.S., We are organizing ourselves in the Netherlands as we speak so the three companies in professional are being brought together in Q1 into one company.

TTA Total Talent Architecture our approach where we go to clients and we say we can improve your company, we can improve the way you treat people, you hire people, we can look at the productivity of your people and that feeds into a growth in the MSP / RPO and also in the in-house business is taking shape we've created an international project theme that's going to train our own people as I mentioned in London we are talking about roughly 100 clients worldwide where really staff flexible staff is a big item. And

we're going to train around 150 people in our own organization to really be able to present our business in a strategically relevant way to our clients. There's going to be more on that one probably going forward but this is where we are today.

On the technological developments as mentioned in London our ambition is to be the most agile integrate of technology in our business, so any promising development in technology, in HR technology we're going to bring into processes to stay ahead of the game in this development. Four investments in our innovation front of course very happy on the M&A part as regarding an increasingly solid balance sheet and Robert-Jan will talk a little bit more on that one.

So North America as I mentioned increasing performances are starting in Inhouse business growth roughly two times markets. So the market grows 4% we grow 8% that's definitely something we would like to have in all countries. not yet the case. We are very proud of our performance over there. But also if you see a gross profit growth 8% revenue growth of 10% U.S. professionals is the other way around and 5%. This is more a growth profit business. So Perm is very important. U.S. picking up our financial business is doing very well improved throughout the year. Our engineering business is also doing very well. Our biggest business, our IT staffing business could still grow faster, had good improvement in Q4, ended year well. But, they are getting there also consistent improvement throughout year. So sourceright, as I mentioned spend under management that means the revenue we take care of on behalf of our clients has grown with 61%. So our impact and our presence with these clients have increased massively. Canada, a somewhat sluggish market compared to the U.S. we're in line with market. But it's modest growth as you can see and then the result a huge improvement.

France, as I mentioned difficult market minus 8%. But yeah the good thing in France is we started a year well, quite surprisingly the return from minus 8% in Q4 getting closer to zero mark, January. This might be, it's always difficult to see what is this coming from, this might be coming from the fact that politicians or the government in France has announced that that's going to be consistent support in terms of subsidies for the private sector. And this might mean that it's a little bit more, I call it trust. And people are investing bit more. Temporary business is always ahead of the game. So still a tough Q4. As you know we concentrate on profitable clients. So we do say no to client's one work with us and what we think is a too low margin. So, despite the negative revenue growth, you can look at EBITDA development which is quite good and that's a result of our strategy in that field.

The Netherlands, ABFS paying off activity-based field steering, so the way we go to clients, more commercial context is paying off mentioned sooner -- I mentioned is earlier Chris organizes his people every consultant one day a week in a call center calling clients, calling clients and that is paying off. Overall professionals up 13%, so our professionals business that we are now combining is definitely off to a good start also. A permanent placement growing everywhere with certainly in the Netherlands, this is from a small base grounded, but 53% up, that's quite impressive. Slightly up on costs, so the 250 people of course are not in our financial numbers yet that will be into '15 and a good and stable EBITDA margin, rather high margin as a result of that. Our business mix over there and also the fact that we contain our costs and certainly our margin and we grew in perm.

Germany, effectively the most difficult one at the moment. Economy in Germany is okay, it's not great. But a lot has changed. Therefore you know as well and bet lot has changed in the temporary business. Temps went to equal pay. So the price of a product has risen and that has led to less demand. But also that's funny, the 13-week average calculation rose you see in gross margin. It effectively pays in Germany to be ill because

then you might get more money than when you work. It also pays to be on holiday, very technical but at least this hurts our topline with 3 to 4% and it also hurts our gross margin.

This is sort of an anomaly in the system that's created in Germany. We like the fact that temps gets paid better. We think that's long-term good for the emancipation of the product in Germany. But this 13-week calculation rule needs to go out. We think because it sends the wrong message. Our workers council – workers council is actually against this system. We take our costs logically of course when the business is flattish which it is, EBITDA margin decreased somewhat. But throughout the year, pretty short pictures still in Germany.

Belgium, a good development in the EBITDA margin, of course strong operating leverage as a result of the cost we took out a year ago. Minus one in revenue impacted by strikes that were like three national strike days in Belgium and that hurts us. So some of our clients were closed so in our in-house business as you can see the growth went down from +13% to +5%. But that is picked up now. Belgium starts the year very low between 7% to 8% growth so good.

U.K. I called it another step but definitely we are not there in the U.K. but again we double our profit second year in a row. Driven by a few businesses as soon we have construction property and engineering business I don't know if you visited London lately and it looks like Dubai with bad weather. There is lot of cranes that's building everywhere and we supply lot of these people also an infrastructure so new rail that's all the stuff. Finally, our IT is not too great but our education business is going very well and our perm fees up 16% U.K. is a perm business.

Iberia, so Portugal, Spain really looks like the Spanish economy as still in the corner. So you see double-digit growth could be higher but we took out some business we didn't like too much they came with the USG acquisition because of risks or because of lower margin. But again a great start of Spain in the year plus 23%. So very happy also for our colleagues in Spain who have very tough time in last few years the market halved as you might know, so happy there. But also Portugal doing fairly well and you see the EBITDA margin very good development.

Quick run through the Rest of the Europe, Italy, Italy is an interesting one because the economy is not going that great but the companies or the countries becoming more flexible. So the penetration of flexible labor on every working Italian 0.7 was a temp. Now it's above 1. So we actually see that the economy is not growing in Italy but our sector is. So that's of course a development that we like. Switzerland doing well, Poland doing well and a very good EBITDA performance there.

Rest of the world, Japan I mentioned good growth 8% in Q4, Australia doing well, Asia, lot of investments in China, Singapore, Hong Kong. Latin America also up but as soon we are making a lot of money here. For 2015 we are going to create a somewhat better balanced between growth and profitability quite a few of these markets are getting to a critical mass so we now have 500 people in China and we also -- we know we can make increase in profits there. So 2015 for this part of the world it is still growth but it's also making money.

Yeah. That's the operational update. And before I go on for us this is definitely moment. Leo lindelauf work 36 years at the company. So when arrived here when he was 14. We are a company with values. So to know, to trust and to serve - striving for perfection and simultaneous promotion of interest. He could talk a lot about that, but it's actually your leadership the sort of creates these values and strengthened these values and Leo, you've always been the embodiment of the values in the company. You literally grew

with the company. You emigrated – you emigrated from Limburg in the Netherlands to Amsterdam. So you took quite some risk. And personally, I am very happy with the role you played in my first years as CEO we had a slightly new team and young team and your coaching role has been tremendous there. So its Good Bye to the executive work you still stay on for another year, doing some task that we feel is very important for the company. So on this stage, thank you very much for everything you did for the company. And with all that I give over to Robert Jan.

Robert Jan van de Kraats

Both of my colleagues have said something about the annual report, so I have to say something about it as well. There actually, I hope you are going to enjoy the fact that we have move towards integrated reporting, a step further again. We don't get a lot of feedback on it. So that's why I promote this now. And second point is that in the context of quite a few failures in the world failure in companies we have added to our risk management paragraph, how we come to the conclusion that we are in control, not just that we are in control, but how we get there. So it's up to your evaluation. And the final point is that we also have included the new style audit opinion again like we did last year, but a bit more extensive. So we need some feedback here to make sure that we know if this lands well. That is my contribution to the annual report.

Looking at the income statement for the fourth quarter here, everything has more or less been addressed, let me just address the few points specifically from a finance angle here. We have integration cost and one-offs 34 million this is mostly the Netherlands was announced recently, the second largest part is Germany, but it's only relating to reorganizations here. Last year actually 37 million was Belgium mostly and integration cost relating toward to USG. It looks if we have a rhythm of announcing reorganizations in the fourth quarter of the year that's not the case. This is just a coincidence. If you look at the currency impact here for the final quarter it was roughly 50 million at the gross profit line and then 30 million at OPEX which leaves 2 million positive at the bottom line. If you look at it for the full year, it's the other way around, because it's very much at the end of the year, the dollar started to appreciate against the euro, but for the full year negative impact of 4 million at the bottom line. So, you know that's a different picture here. Final point here, a net finance cost. We have roughly 4 million of interest expenses relating to our financing at Randstad which is the result of our policy on floating interest rates. The remainder relates mostly to currency effects on our short-term positions here, book-keeping.

Looking at the segment performance, starting in-house professionals, if you look at the EBITA percentages improvements across the board, what speaks out here is that the EBITA margin on in-house, 5.8% is pretty good. Cost allocation is always a bit of an art rather than a science. So, that might overstated a little bit and starting might be a little higher, but I think it continues to indicate that we have a very successful business here. And let me also point out in in-house here, the second bullet, good growth continues in the Netherlands, Belgium, Iberia, North America and emerging markets mainly in the industrial and logistics segment. And this is typically if you are well-positioned here and Jacques referred to it when looking at France -- for – if you look at January, France minus 1%. You are well-positioned through in-house in industrial segment then typically you really benefit if activity levels are picking up. So this is really a strong pillar in the first phase of growth. If this continues and -- that I will get back to it at the end.

The gross margin connection between last year Q4 and last year being 2013 and Q4 '14, actually the middle explains most of it Jacque mentioned this already, our micro strategy on permanent placement is working quite effectively and is clearly contributing to the gross margin.

Operating expenses, this is not year-on-year, this is sequential, so Q3 to Q4 the trend here, mostly foreign exchange here and if you look at the marketing expense that's an addition that is specifically related to two campaigns and it is also the seasonal pattern, FTE growth wherever we do see growth so we follow that. We typically are in phase one of growth, phase one of growth means we try to do more with the same people paying extra bonuses and commissions but then you get quickly to a level that you have to start adding some people but only field relatively limited growth – the productivity should improve.

Incremental conversion is typically is high over a period of four quarters. It typically ends up in the range of 70%, 80% if it is well-distributed across the world. And the US has been growing for a longer period of time. So there you see different numbers. Then you move to the second phase of growth where you start to really add people on the larger scale and then the incremental conversion. So, incremental conversion indicating what is retained of additional gross profit in EBITA and the rest is spent on OPEX. And then it starts to move towards the 50% area and only in the third phase of growth which lasts long, you really start to add branches on large scale. You might start to add people in the back office, but that is really quite a phase ahead of us. We are not approaching that by any means. We are adding branches as we speak but most of that is in the Inhouse business and this is where we setup outside of the client.

Net debt, the balance sheet, yes, it looks quite nice. If we start at the bottom here, 15.8% return on the invested Capital, gradually improved throughout the year to this level so effectively this is like the economic return. If you look at where we put the money it's mostly in goodwill and intangible assets 2.6 billion. Operating working capital is €0.5 billion so that's the balance between the receivables from clients and payables, for example to the social security authorities, to tax authorities. And that is 2.8% of revenues. So if we grow our business we typically on average it depends and it differentiates per market, but we typically need 3% round it over our revenues, on working capital which explains that growth from a financial standpoint is almost unlimited. There are no real limits to growth. We need to make sure we get the right receivables and we need to make sure they pay on time. We are doing a pretty good job there. But then you know this tells you that this is not an obstacle at all to any growth ambitions we have. The net debt level 422 that got quite a push at the end of the year because if you look days DSO it's been rather stable but towards the end of the year, our efforts to reduce it further were successful. We've looked at the January numbers to make sure it was not just December and also that month looks good. So it really indicates that we are rather successful here. If you take a look at the 2014 full year charts for bad debts so what hit the P&L it was roughly €12 million which is 7 basis points of revenues. So across the board our receivables management has been doing quite well.

The free cash flow of Randstad up significantly to 61%. We got a little help here because 2013 the fourth quarter here showed, included an item of 131 million which was a long lasting and long standing payable to the Dutch government where we had a special arrangement and this was dealt with last year, so not in this year. But we have our contribution from EBITA, the change in working capital, so a positive here. Then we have our taxes paid. This is the provision, so we have provided in the P&L which is a spending in the new year, that's why it's a positive here. If you look at our net additions, this is our CAPEX 23 million in the quarter, 63 million for the full year, roughly equal to depreciation in the company. Net finance cost, I just elaborated on that one. So, pretty solid story here. And if you then dive into it a little bit, this is reflecting the net debt levels of around south on this access going from north of 2 billion to a decline and then acquiring here both SFN and Fuji Staff, and now reducing to a level of around 400 million.

The blue line is the leverage ratio and is shown here. So we've had a few peaks north of the 2.0 that we consider to be our maximum and that was due to the volatility of our earnings. So we are very careful here in addressing this properly and that translate also into our M&A policy going forward.

We clearly are looking for bolt-on acquisitions. We continue to do that in the countries where we operate. We're happy with the geographical footprint. We're not looking to add countries, but we're looking to become bigger in the countries where we operate or in the segments specifically where we operate. But we have a pretty strong sort of economic return policy here. And that means it's not very easy because the value of Randstad has increased and the value of many targets has increased. So, effectively that translates to us not expecting that we're going to announce to you a deal anywhere very soon from this moment. But we continue to look at relevant opportunities across the globe. Whenever they are available, we will be involved. So, again back to this slide, strong DSO performance really paying off here.

Productivity is another key element here in our financial performance. This is gross profit earned by each and every FTE in the company, including the board, everybody in the back office. So this is what we earned on gross profit and gross profit is the difference between revenues and the wages and et cetera benefits pay to flex workers. This is quite a high point here (2007). After that we did go through the crisis. We never really yet return to the level of pre-crisis. And as you can see, we still have the rates at the level in the past. So, in the meantime, we had some inflation on the loans, so that you would also be compensated for. So how do you get it up here at the very end? Well, there are few components, activity-based field steering which means you get more GP out of the people in our company. That is what it should lead to. The second point is delivery systems; we are looking at making sure we deliver the clients in the right way, most efficient way. Large clients preferably through Inhouse and not the branch network, central delivery. And the final point is what we announced last year adjustments to the head office and the back office on the back of our benchmarking exercise which we are currently addressing globally. So that should help us to improve this number.

And then very proud to of course the dividend, we wanted to share this with you. A bit of flashback and of course we had some difficult times during the crisis to protect the balance sheet. But across the board, you can see here the dividend improved towards the last 10 years and now €1.29 is a straight forward translation of the policy. The policy is between 40% and 50% of adjusted net profit. And the range we choose the point in the range base on the balance sheet. Balance sheet got high end of the range. That's the simple translation here. And the default is cash; the choice is between cash and shares, last year more than 66% of the shareholders took stock including the founder of Randstad. Yeah, the outlook for the period going forward, our revenue growth in December, so in the Q4 was 3.4%, it was up 6.5% in January. We already made the point in the press release reaching days are always making the calculation a little bit more complicated. I am not going to take away the posted news here. I am just trying to make sure that the real underlying trend is visible. So if you look at the last week of the year, the last week of December, in 2013, there were two December days, working days. And in 2013, there were -- sorry '14, there were three working days. That adds one day in the calculation if you calculate the profit -- the growth per working day. But that day is in between Christmas and New Year, not many people working. So this is why the formula is correct but the outcome you need to think about a little longer. In January, the other way around and that's why sort of our assessment is that the 6.5% might be a little high but this certainly north of five. So we do see the February volume, so we don't plan at Randstad because we need to adjust and we spend all our time and money in making sure we adjust everywhere in the world to whatever happens at a certain point. And that means we expand whenever necessary, whenever the

opportunity is there. We follow, we don't have a huge pipeline but we follow the volumes every week at board level. And if we look at the volumes in the month of February right, they are in line with what we see in the month of January. At the very end of the month, we know the number in revenues but we follow the people the number of people working and we follow the volume of our permanent placement business every week. And please note that, the first quarter is always the weakest quarter of the year and many of you know about the strongest quarter is Q3 than you have Q4 then Q2 then Q1. It's always a soft starts, it seems that many countries are closing down business around Christmas and then it picks up again. Same number of working days, we expect a moderate decrease in the underlying cost base sequentially, really moderate but notably that as per the 1st of January, we have some salary increases across the globe. We clearly have growth in some parts of the company that we continue to invest in and in countries or in segments. The restructuring effects are coming through in the first quarter. So it starts to come in over the course of January, so we will see that moving on and we do expect the affix sequentially to have an impact here on OPEX of as we state here of 23 million assuring the level of the previous periods. So, substantial impact here at the OPEX level. Well, then we have our Annual General Meeting in April on the 2nd. These are the exact rate of the month of January Jacques refer to quite a few of them are already. But I think across the board quite nicely in Netherlands clearly sticking out. Germany was elaborated on by Jacques. And if you look at the Iberian situation, you can have the Iberian teams sitting here or Spanish team sitting here quite nice performance in the month of January adding up to the 6.5%.

And finally this should be a records and which we have the both that will help us to perform better and just repeating it the cost management, our ambition to save 30 to 35 million in '15 and '16 and ahead of this back office, our actively based field steering helping us to improve productivity. Our assumptions that you gave us in our consensus estimates having been applied here and then if we grow and if we continue to work on our strategy in permanent placements and for professionals and SME will see the business mix improving also contributing to better bottom line. And this is just stating again repeating what we shared with you at the Capital Markets Day, our 5 to 6% ambition is within reach, to make sure I used the right words within reach for 2016. Thank you. We're now moving to Q&A.

Q&A

Arun Rambocus

Okay. Let's start in the room first. Please stick to two questions.

<Q - David Tailleu>: Yeah. Thanks. David Tailleu from Rabobank. First of all, on the excess capacity. Could you highlight the markets where you see the most excess capacity, and maybe also broadly quantify that in percentages? And secondly, to the Netherlands, I remind that during the Capital Markets Day last year you specified the margin of 6% to 7%, if you look at the current growth in the Netherlands, it looks much better than the pace in Q3 where you mentioned is of Q4 is right issue. I'm also looking at the cost savings you announced that let's say it looks to be on the conservative side, your previous margin guidance. I'm also looking at the 6.1% you achieved for 2014. Thanks.

<A - Robert Jan >: Yeah. David, your first question on excess capacity, we think we have excess capacity in the operating companies where we have just started to grow. The U.S. clearly is in a different position; Japan is in a different position, but -- China and so forth. But clearly, in Europe we have excess capacity. And our estimates would be that is in between 10% and 20%. And, of course, you need to be a little lucky here because if you have excess capacity in Northern Germany and you grow well in Southern Germany. That's very difficult to net out because that's quite a distance. Your second point was on the Netherlands, the profitability. The savings that we announced in the Netherlands, and I think Chris was also quite clear about it, are also intended to make

sure that we retain our competitive position and that we are able to continue our profitability around the level where it's now, and in the meantime to again get back to market share eventually gain that. That's the policy here.

<Q - David Tailleux>: A quick follow-up then. So basically you're saying that the gross margin in the line is coming down in a relevant level. Probably you will not be willing to quantify that but it's not by 10 basis points down, it's more.

<A - Robert Jan >: Yeah, in Netherlands.

<Q - David Tailleux>: Yeah.

<A - Jacques >: Netherlands is a bit like what you see on the group level. So there was definitely pressure with large clients. We landed quite a few nice big clients in the Netherlands. That helps us grow. But there's absolutely pressure, but then we have the growth in the SME. We have the growth in the Perm business and that's offsetting. But yeah, pretty stable as a result of all that gross margin.

<Q - Hans Pluijgers >: Yes. Looking at France for this year as an additional relief expected from the so called 70 tax or lower contribution to that. How do you see that impact in the competitive environment during the profitability that 5% so how this is going forward really at historically high levels? And secondly on the cost and the incremental conversion was quite high in Q4 and clearly a pick up compare to Q3 where indicated this to expect to come down with first of all drivers that so high in Q4 because I can't calculate from the numbers and secondly how do you see that's going forward do you still there the same trend or maybe a little bit more positive on that number?

<A - Jacques>: Let's do France first we even pretty consistent in maintaining our price levels so therefore we will be below market. There is another relief coming in but that's one but more importantly is the fact that the French government has stated that reliefs are going to long term. So we think that we will lead to more demand so that's good. For 2015 we are going to be a bit more open to give some of the subsidies where if we get business for it because we've seen some midsize players gaining quite some revenue on this one. So we are happy with the fact because that's easiest to manage for your people to say it's a no always and now it's a no but.

<A - Robert Jan>: On the incremental conversion ratio please note that we have a seasonal pattern in our gross profit but not to same seasonal pattern in our cost base. So for that reason it makes sense to look at the ICR for period a little longer and just a quarter it helps you if you look at it for a couple of quarters in row actually Q1 last year it was also high. So I would like to refer back to the model that I explain high incremental conversion in the first phase of growth 70, 80% then going back to 50% in a period which is typically starting from the second year of growth and only overtime gradually converting to the level of EBITDA. So for 2015 you should consider this to move from the high levels where we have been towards the 50% that hopefully still staying over it. It very much depends on the speed of growth.

<A - Jacques>: And as also one specific thing on Q4 last year if you might remember we put in a marketing boost it's around 15 million we do still spend on marketing but less than last year. So that's also reason why you have somewhat higher incremental conversion then you will normally see in the development that Robert Jan just painted.

<A - Robert Jan >: Yeah and if you take that one out to ICR for last quarter of 2014 would still be below the 70, in line with the one I just explained.

<A - Arun>: Konrad?

<Q - Konrad Zomer>: Hi, Konrad Zomer, ABN AMRO. Two questions, the first on the U.S. can you update us on the potential impact that the integration maybe to professional business following SFN could have on topline growth. Second question on the Netherlands, you told at the Capital Market Day in November that your SME revenues at Randstad now we are up more than 20% in the last few months of last year and the Tempo-Team is still a little bit below that. Can you update us on the last few months and

whether or not the margin difference between SME Randstad and SME Tempo-Team is very big or not? Thank you.

<A – Jacques >: Okay. Well, on U.S. we have an expert in the room.

<A – Linda Galipeau >: Could you clarify your question, the integration of SFN is sort of behind us so I am not sure what you mean?

<Q – Konrad Zomer>: I am talking about the integration of the professional business. I know that the general staffing business of SFN that the integration is fully behind you but I seem to remember that there is still some final integration that needs to be done.

<A – Linda >: Yeah.

<Q – Konrad Zomer>: On the other part of the business.

<A – Linda >: I wouldn't call integration, business is fully integrated we are in the process of upgrading as the financial systems so the back office systems, various professionals companies and also our sourceright companies, that's a separate activity that is going forward. We are doing it within our regular operating budget. It's probably a two year process but it's nothing impactful or transformational. We hope overtime also that will pay role in bringing down our head office class. So every time we bringing one of the companies we are seeing decreases but I think that's already been communicated the class segment we anticipate around that.

<A – Jacques >: Now the Netherlands are pretty similar development which tempo-team also tempo-team has somewhat easier comparison in 2014. So therefore their growth was bit higher. But there are also in the same way as also this is doing and it's facing a lot of time and effort in the SME and also tempo-team that's paying off in the margin differentials and that segment are not great. So it's similar so we're happy with both.

<Q – Marc Zwartsenburg>: Two questions, first on Germany, you mentioned still difficult market but thereby take out the pricing impact is then unfair to say that trend move from say minus 5 in Q4 to around minus 2 in January is that positive pricing component that kicked in last year also in the first quarter. Can you perhaps get there more feeling, what's going on in Germany because it seems to me underlying if there is some improvement.

<A – Jacques >: Underlying is still pretty stable from a volume point of view. We are at minus 5, minus 6 in volume which is already what we saw. But the price – the level is decreasing between volume and price. Maybe to elaborate a bit on Germany. What we do see is that as a result of the price increases, the clients with strategic flexibility are not toning down. So they still need this people. It's an integral part of how do you run the business which are predominantly the large clients. The SME clients in Germany was a bit more of an ad hoc relationships. There we do see less demand. We think overtime they will get use to the changes, but yeah. And SME might whatever – they might have asked for a temp a year ago and now if they ask for temp, it's very much more expensive also because there was a minimum wage increase in Germany. So we do see some fallout there. Hope that it picks up, but we don't see the signs yet. So it's pretty stable in Germany and unfortunately no pick up yet in January compared to December in volume.

<Q – Marc >: Then my second question on the Netherlands, Robert Jan I think you said that you expect profitability in 2015 to remain at a current level at 6.2% you reported '14 while the target is towards 7%, if the cost savings come in, productivity increases, so I'm a bit puzzled on what those statements actually means?

<A – Robert Jan >: So we're going to involve the expert here now please he is already preparing his notes.

<A – Chris Heutink>: I think Robert Jan makes direct comment in the question what was before because we also want to increase and we want to stay with markets, so we will see I think the range of 6 to 7% as the result so no changes there.

<Q – Marc >: You don't invest all the cost savings away that there will be some operational leverage...

<A – Robert Jan >: Yeah, I think – that's also fair. So -- but we can talk about percentage, the real ambition is to get a revenue volume out of this which is – on which we get the percentage.

<Q - Marc>: We understand thanks.

<Q - Yves Franco>: Hi, good morning gentlemen, Yves Franco, KBC Securities, may be on the Netherlands from your professional's performance there, seem to see a very large difference between your Randstad and Tempo-Team professional versus Yacht where we see this going as from 2015 then the reorganization will be completed and what's explaining this big difference? And then the second question still some an underlying stable margin in the Europe is stable growing margin but negatively affected by the mix is that the geographical mix both or do we see something -- there are some business lines there that are less profitable? Thanks.

<A – Jacques >: Okay. I will take the last one and then Chris you do the professional region in Netherlands. Yeah we do see blue color picking up. So it's a mix again. You see in-house is growing faster than staffing and that's also overall the case in the Netherlands but yeah, we have a great conversion of course from gross margin. So, that's the underlying gross margin pressure because of business mix. It was still translate into a good return on EBITDA.

<A – Chris >: And when it comes to the growth of professionals and the difference between Randstad and Tempo-Team I think I try to at least explain also in London. The growth is base actually on lot of indefinite contracts which makes us bit more difficult to grow. And in certain markets we are changing this. And Randstad and Tempo-Team professionals is more based on the mix of contracts holders more short-term and also more flexible contracts I would say. If you look at the quarter – for last quarter it is a 30% of growth in the professionals in total. And I expect actually to continue that progress. Yeah.

<A – Jacques >: Yeah. Also what's also what you see is that yacht is in established business and sometimes it's very difficult to take an established business and sort of recreated the buzz that's very necessary in our business which you see. And also technologies and also Tempo-Team or all software professionals it's sort of a younger origination with lot of energy and we also hope that by merging this we get a little bit more of these excrement into the total professionals business also helping the former youth business makes up to a higher level. Yeah.

<A – Arun >: Okay. Thank you very much. Now we move to the call. Basically we have first questions from overseas please.

Operator

The first question is from Toby Reeks with Morgan Stanley, Toby, please go ahead.

<Q - Toby Reeks>: Hi, Guys. I've got couple as well. And you talked about the dropped through rate the little bit and on the team who are moving into Phase II. So towards that little bit about this year. Can you clarify whether you are including restructuring benefit within that or should we think that as an underlying number? And then the second one is on I guess around the capital structure you obviously said you are targeting Bolt on, can you give us some idea of what sort of size you mean by that? And if we now expect any deals so reasonably when you do you think there sort of cash on the balance sheet become something you need to think about a bit more? And then as you expect that when you actually get the cash from the CICE, I think it was the third, wasn't it? This is getting out next couple of years? Thanks.

<A – Robert Jan>: Yeah. Toby its bit difficult to hear what you're saying exactly, but let me respond to what I think I heard. You were talking about the drop through rate which is effectively the incremental conversion rate show and indeed it includes the savings from the restructuring but it will bring us a bit higher in the range. And of course, you would like to know precisely where we are going to end up in range. Well, actually, we don't know, because it depends on the growth rates and the opportunities

for investments that we're going to see. So I expect these savings to be relatively easy to identify going forward. Your second point is about M&A, and I think I heard you ask about the profile of acquisitions. Yes, indeed, build-on as I said in the countries where we operate, so typically we would look at midsize acquisitions here, with a clear ambition to fit strategically to be able to manage it successfully, and to maintain a strong balance sheet – the balance which means that the leverage ratio should not be north of two. And then I heard you ask questions about, when will you arrive at a net cash position? Well, if the current rate continues, it's unavoidable that we're going to end-up with a net cash position somewhere next year probably not at the end of the year, if you just sort of extrapolate current developments. And please note that throughout the year, the second quarter shows the highest net debt level due to dividend payout and payout of holiday allowances. But clearly in 2016, if we won't – if it will be silent so to say on acquisitions, the balance sheet will show net cash position. And as we said, if that happens we will come back to you.

<Q - Toby Reeks>: Okay. Sorry, just two points because I don't think I came through clearly. The first one is what you mean by midsize deal, could you sort of quantify what that would entail? And then secondly, I think you get cash from the CICE which was deferred, when does that cash actually come into your cash flow?

<A - Robert Jan>: Yeah. Midsize means a few 100 million. And CICE is paid after three years as from the momentum it will sort of earned, so that means its starts come in at 17 -

<A - Arun >: May 17.

<A - Robert Jan>: Yeah, May 17 then we will see the first payments coming in. The balance sheet at the end of 2014 contains €170 million of CICE.

<Q - Toby Reeks>: Thank you very much.

Operator

Thank you. The next question is from Chris Gallagher of JPMorgan. Chris, please go ahead.

<Q - Chris Gallagher>: Good morning. I just wanted to clarify on what you seen in January and February, when you talk about February being same kind of volume levels as January. Do you mean the 6.5% growth or do you mean drawing 5% underlying that you have mentioned?

<A - Robert Jan>: Yeah. I meant volume and 6.5% is revenues, because we don't measure revenues on a weekly basis. We look at volumes, what we can share with you is the volume development and that typically translate in more or less similar revenue levels given the fact that business mixes don't change that quickly. And I was referring to -- if you look at revenues than it should build from the north of 5%, I didn't say five, I said north of five in January.

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

Operator

The next question is from Nicholas de la Grense of Bank of America Merrill Lynch. Your line is now open.

<Q - Nicholas de la Grense>: Good morning, guys. Two questions please. The first one is just on France, can you give us an indication of what the underlying phase of decline might be there because just trying to enter further that we can expect the net return in fourth quarter and a much better minus one in Jan, was the holiday impact that you discuss at group level particularly acute in France? And then the second question is just on tax rate guidance for 2015, 27% to 30% should we apply that going forward beyond 2015 or there is a specific reason why it's going to be lower this year? Thanks.

<A - Jacques>: Okay. Well on France its -- yeah, we are approaching a zero line sort of means that currently as we see we are very close to zero mark in our growth rate in France. So we are happy there. We also see the market getting back again. So, yeah, it looks like a -- you can never say stable, you can never say solid, because you never

know. But a good start of the year which is not due to any technical calendar effect but looks like an improvement for ourselves so we currently growing around 20% in, in house.

<A - Robert Jan>: Yeah. The tax rate indication – we are trying to help you, with your calculations and now you are asking me to give you the tax rate beyond 2015. Its 27% to 30% effective tax rate for 2015, beyond that, I can't give it you, it's very much depending on the mix of growth and then if we grow rapidly in for example, the U.S. the corporate tax rate goes up, if there is more growth in Netherlands, it goes down. And that is currently this is our assessment with possible scenarios for 2016 you have to wait a little.

<Q - Nicholas de la Grense>: Just one quick follow-on with France, so there is no particularly calendar effect in January, that minus one is sort of a pretty strong number, and we had the present data which showed the number of temps -- the working temp is minus 3%. So what do you feel that you will no longer underperforming the market area? And does that have something to stay with the comments you mentioned about being a bit more flexible on price discussions?

<A - Jacques >: We're definitely getting close to market that's true. Also there are some comparisons which are not too great in France, so we ended with slight growth in 2013 Q4. So therefore Q4 was a tough comparison base. And we started 2014 rather weak which continue throughout the year. So there are some easier comps there, but there is also improvement.

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

Operator

Our next question is from Tom Sykes of Deutsche Bank. Tom, please go ahead.

<Q - Tom Sykes>: Yeah, good morning, everybody. And just on the gross margin development thing in Q1 and there is obviously quite a change specifically just on the temp gross margin. You spoke about what may be happening in the Netherlands but it's quite a bit going on in terms of perhaps non-wage effects in the U.S. the annualizing of CICE other subsidies, Germany etc. What's your view on where the overall temp margin on the basis point movement in the temp margin is going to come out pleasing in Q1 as it stands versus that minus 10 basis points in Q4, please?

<A - Jacques>: That looks like a pretty stable picture. On the one hand you do see pricing pressure with large clients and sometimes you go ahead whereas sometimes you don't. On the other hand, we do see in January the perm growth continuing. And as you have seen that offsets certainly in Q4, offset and the margin going down in staffing, so we are -- pretty stable picture.

<Q - Tom Sykes>: I mean, okay. It was really excluding the perm effect. And then when one look at your perm growth, you are coming in at the market price point on perm or are you being commercial in perm to try and build out your market share because obviously it's still coming at a 100% gross margin that you might be a little bit cheaper than others -- where you on your price points?

<A>: It would be a first in any service, Tom you know us well we've never competed on price. And we always compare -- compete on quality. So definitely not growing perm because of pricing. No Robert Jan alluded to this being a macro strategy. Certainly, perm in Staffing, Linda in the U.S. has done a very well and has increased their perm as a percentage of gross profit from 3% to 7% close to 8% in our Staffing business. And European business is about taking on board the way they have done this and so far this is very successful. The European business is also are at like 2%, 3% of total gross profit in perm. So these are basically the same profiles you see in staffing, but we're training our people to sell both and it works very well. So it's a profitable business, it's not on price and is growing and we don't see the end of it yet honestly speaking.

<Q - Tom Sykes>: Okay, great. Thank you.

Operator

The next question is from Laurent Brunelle at Exane BNP Paraibas. Laurent, please go ahead.

<Q - Laurent Brunelle>: Yes, good morning guys. Two question on my side, first regarding your activity level, can you update compared to what you said earlier on Capital Market Day, so it was up 29% in the last six months, it really short in Q4, please? And second I thought on France. I have understood that the growth is - well, the improvement is driven by your in-house services but can you maybe comment by segments, is it due to sector which is picking up or? Thank you.

<A - Jacques >: I understood your last question not your first. In-house is of course by nature certainly in France a blue collar business so it's in automotive, it's in food, it's in logistics and it's also by sectors, because we just we opened individual new branches and they could be everywhere, because we of course sell too many potential clients. So not one sector sticking out there. Just second.

<Q - Laurent Brunelle>: Okay. And regarding my first question, it was regarding your activity level....

<A - Jacques >: So regarding...

<Q - Laurent Brunelle>: You commented on 29%.

<A - Jacques >: Yeah. So activity level well of course is driven by quite a few countries in 2014, which came from low levels. So in the Netherlands it's quite an increase also in Germany is quite an increase. So normally this percentage increase should go down. That's not a problem, because also here the sort of a cycle you start well increasing your productivity level, sorry your sales levels, then you look at your conversions, so how much of these sales activities leads to more business. Then you look at the quality of the calls - but of course of your people, you look at the quality of your data base, you look at the quality of your web presence and your candidate handling and then you take it from there. So I would expect the increase to go down, but at the same time the conversion to go up, but that's always a tough one to calculate.

<Q - Laurent Brunelle>: Okay. Thank you.

Operator

A next question is from Andy Grobler of Credit-Suisse. Andy, your line is now open.

<Q - Andy Grobler>: Hi, good morning. Just a couple of quick questions from me. Firstly on France, you mentioned the French government has talked about more consistency in terms of subsidies, do you think that also applies to CICE and does that mean do you more optimistic I guess incrementally that CICE will be maintained into 2016? And then secondly, just on finance charges you noted the FX impact within Q4, do you expect similar impacts through the start of 2015? Thank you very much.

<A - Robert Jan >: I'll take the last question first. The answer is yes.

<Q - Andy Grobler>: Yes.

<A - Jacques >: And yeah, we're also absolutely certain that we'll give CICE in '16 because its three years scheme. So it was announced as such. Is not necessary effect that the pure technicality of CICE, as a support package will continue into the years after, but there will be probably different or similar support package is going forward? So the technicalities we don't know but the government has been quite local and I met - I met my -- I myself met with Valls personally, the Prime Minister and they really want to support the private sector. So but they do this in the French way, which is through subsidies, but yeah the fact that they are now so vocal and sure about, we hope will help the confidence of investors in France, which is important.

<Q - Andy Grobler>: Okay. Thank you.

Operator

Final question from the phone. It's on Angus staines of UBS. Angus, please go ahead.

<Q - Angus Staines>: Hi, guys. could you confirm that the conversion ratio guidance seems constant currency and if possible maybe even give some indication of the relevant

or relative currency impacts on sales compare to cost, compare to the net finance charge?

<A – Robert Jan >: It's a constant currencies yes. Roughly the formula is simple, if you look at Q1, '15 and you compare year-on-year taking the current levels than the impact at OPEX level is 38 million and GP would be 43million leaving the 5 million benefit at the bottom line. And I cannot sort of get you further details on the FX; it will continue to show up given the current trend in Q1. And this is book keeping, economically we aim at doing the things right but bookkeeping forces you to present it in a certain manner.

<Q – Angus >: Fair enough. Thanks.

<A – Arun >: Okay. Thank you very much. May be as a final question or we have two questions left. But first give a floor to our colleague Piethein. Piethein go ahead.

<Q – Piethein leune >: Yeah, couple of things not a difficult one I think could you – you've been very nice in quantifying the gross margin online year-on-year developments for almost all regions could you share a little bit of light for quantification on Germany and then Netherlands as well I think that would be consistent? And secondly, could you elaborate a little bit more on how the volume development in Germany would go, you know, let say beyond the soft patch, I mean, we are at very low levels of unemployment. I mean, is there still scope to see, let say high or double-digit numbers growth going further into this cycle in Germany, or could you share a little bit more on the longer-term outlook for Germany?

<A – Jacques >: Okay. I'll handle both questions. So, we don't give gross margin developments per country because we do give EBIT growth and basically everything else.

<Q – Piethein >: You gave the development in gross profit.

<A – Jacques >: Yeah. Okay. So, Robert Jan will elaborate then, Germany politically things are going not in the right way. So, Germany was the sick man of Europe, some 15 years ago and under Gerhard Schröder which probably he was still working with us, he visited some branches from round sub, to look at the model in the Netherlands and that was effectively adopted by the social democrats in Germany. So, the Hut laws made Germany flexible created a lot of jobs. But it wasn't good for the social democrat party, they lose a lot of votes. Now, you see the social democrats party coming in again with a very old fashion agenda barring down of flexibility, increasing minimum wage in the Eastern part of Germany to over to €8.50 where it is as I mentioned €2.65 in Poland like 40 kilometers to the East. We think that's bad news, we think its old fashioned we're law being hard against it, but Merkel doesn't give a lot of pushback. So they some documented points and yeah, that's not great. So that won't help penetration rate as such. So Germany was the only country in Europe which in 2012 had a higher penetration rate then in 2008. So all that we lost in the Netherlands and France as not been gained back, it was in Germany. But yeah, the last two years have – in that sense not being great. So yeah, revenge to be seen. But certainly also in Germany, we concentrate on SME business, white collar business and perm business. It's also changing our business mix a bit away from where we were, to see some competition there, currently not enough.

<A – Robert Jan >: A little help from my side on gross margins in the Netherlands it's roughly flat. There are couple of components here social securities have changed but overall it's – it just a little bit below but not much. And if you look at Germany it is below the previous year. And please refer to what Jacques explained on the legislative changes the 13 week rule, I would say that's on an annualized basis would be a cost of around €20 million. That's very substantial.

<A – Jacques >: Yeah and of course the margin as a percentage Germany has come down also because the price increases but also the cost as a percentage has come down and that sense you talk to each other the margin nonetheless pretty flat but that still okay but as a percentage it goes down.

<A - Arun >: Final question for Hans.

<Q - Hans Pluijgers >: Yes two questions if I may. First of all on Spain you saw quite pick up in January in gross rates but all there indicated that you said it some let's say four business of USG operations. So it's have let's say that the comps are becoming somewhat might easy that's the main reason that you see big jump or also in the line drive that you really see that you are gaining clients and traction. And secondly on your dividend policy M&A so far we have to let's say discuss a quite few times over the last few quarters but you should do with your cash and increasing dividends and at moment in time you always have of course we have to look at M&A this kind of things this time this taken was quite clear if the balance sheet is strong over in the upsides the top end of the range. So it more clear. So it also means that you let's say see that M&A is becoming more difficult, that prices are little bit on the high end is that really believe that M&A is really becoming more difficult so more difficult to get very interesting targets?

<A - Robert Jan>: Yeah that's exactly what I said so it will be a bit more complicated and the choice for dividend is clearly following the strength of the balance sheet. But we are looking at midsize deals as I explained and we will continue to do so and we might identify one of our more during the year we will see. And we will get back to inefficiency in the balance sheet only when we have net cash in the balance sheet.

<A - Jacques>: And really where high service company of course and we brought you just for today a specialist on Spain. Rodrigo, can you comment on the Spanish development.

<A - Rodrigo martin >: Yeah I would say on Spain it's a combination of things we are happy with the turnover we are seeing for first time in several years. I would say it's a combination of different themes first thing is in firm both professionals and perm staffing we have developed model the business model that is somehow is a low to be the market quite consistently. That's the first part. The second is linked to USG because comparable are getting better now because the divestment that previously Robert Jan mentioned were made at the beginning of last year. Second thing we have been rebalancing the company in the second half of last year again back to growth because if you have seen we have got solid improvement in profitability so we are feeling comfortable with that and mainly through activity-based field steering, we have been rebalancing back to growth to catch the market momentum that we have started to see there.

<A - Robert Jan>: Against pretty serious comparables.

<A - Arun >: Okay, Yves okay – so if you can go ahead one question please and then we move to a coffee. Thank you very much.

<Q - Yves Franco >: Sorry, one last question from me. The sickness thing in Germany it was implemented in -- I don't know precisely when, but this is the first quarter you mention that there is such a separate gross margin impact, so this is the first time or was it also there previous quarters or should we see this as -- or how should we see this going forward in 2015 and beyond?

<A - Jacques >: Of course we mentioned the total effect for the full year. So that's why it's a big number there. But I or we commented on the fact that this is funny thing, and that sickness was relatively high as phenomenally you would see sickness rate in the summer at least there of 2.8% and we were above four in the summer, so then you something is wrong. So it's a funny system. So you work with the client for a few months and then your wages go up, what has not to say which you going to make a the next assignment. If you then know it's going to be lower, something happens, I don't know, headache whatever, and you fall ill. In the Netherlands we are privately insured, so we take the risk of illness ourselves so we got an operation in place to assist, to assist the people getting back if they are ill. In Germany it's still pretty old fashion you can't even really call the temp, it's still the system we had in the Netherlands years ago. You go to a doctor, he says, you don't look good, please take two weeks and then come back. In temping, its day business so we want you to be back, if you are not ill, the day after which we cannot really touch the people. So that's why and the same in a way goes

for holiday. You also go on holiday if your next assignment is sort of is at the low end. So these are funny effects and we saw them coming in, because people get used to it. We saw them coming in more, and yes, this is also going to be part of the game for 2015. We're trying with our price increases to sort of offset this to clients, but yeah compare to the fact that also the bill rates went up, that's going to be tough.
<Q – Yves >: Okay. Thanks.

Arun Rambocus

Okay. Thanks everybody. Thanks for showing up. I invite you to please join us for some coffee and some refreshments outside. Thank you very much and see you next time.