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PRESENTATION

Operator

Hello, and welcome to the Randstad Half Year Results 2018. My name is Molly, and I'll be your coordinator for today's event. (Operator Instructions)

I will now hand over to your host, Mr. Jacques van den Broek, to begin today's conference. Thank you.

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Thank you very much. Good morning, everybody. Jacques van den Broek here together with Henry Schirmer and David Tailleur to talk you through our second quarter results. Let me immediately go to Slide 6.

We think it's a good all-around performance, very happy with our conversion into an increased EBITA as a percentage. Organic growth 5%, as we already guided for in Q1. We were facing a tough comparison going from 6% growth in Q1 to 9% growth in Q2, predominantly in Southern Europe, and then going from 7.5% to 5%, stable growth rate there. EBITA, EUR 283 million, 4.7%, which is up from 5 -- 4.5% last year.

Looking forward, and of course, our visibility is limited here, but we still remain on our guidance of the Capital Markets Day to -- with a mid-single 4% to 5% growth, increasing our EBITDA as a percentage. So very well online there.

Some highlights, of course, as you know, almost an internal highlight, but also this year, our Inhouse business again up 12%. Perm, 14%, that's the highest we've seen in quite a while. It comes from a very broad-based business, our Sourceright business, but also very much rest of the world. Latin America, Southeast Asia, also strong on perm.

What's interesting about rest of the world development is, last year, our growth was very much driven by Southern Europe, which effectively was a first where the U.S. business and the Dutch business were growing less, but still we had a very high growth. What you see now is the rest of the world is around EUR 2 billion on an annualized basis in terms of revenue. We've been investing a lot in growth in this area, but now [they] also delivering above average group return. So very happy on this development, which I think increases our global footprint and global presence as a company.

A few words on digital. As you know, I can talk on this one for a long time, but it's a Q call, nevertheless, mentioning a few highlights. Workforce scheduling, so this is a service where, for relatively large users of flex work, we offer a planning tool. We create a dedicated pool of temps who through an app, app technology, homemade, they can plan themselves and the client can also do automated planning. Working very well. Started in France, as you know, where we now have converted more than 200 clients, but we're now rolling it out into 8 countries. The U.S. showing the first traction here also with some 40-plus clients already transferred. We think this will very much help our growth in 2019 and beyond.

Data-driven sales [with that again] This is a tooling that helps our consultants to look where there's demand. This is a solution we've tested in the Dutch business, in the French business and in the U.S. business, at least in general to an above-average growth in the SME part. At the same time, the system also offers information on cross-selling. So people in the different business lines in the country will know the context that [polics] have had with this company and that, of course, also leads to more sales into different business lines.

But as said, these tools were developed in these 3 markets, in the 3 systems of these countries. We've taken now a best-of-breed system. We're developing that in Belgium. And this system, through our digital factory, will travel, and we're going to roll this out in the rest of 2018 into 6 other countries.

Last, talent engagement. As you know, our strategy is people will decreasingly look for jobs, so jobs need to look for people. So we're well on our way to create a data lake of more than 300 million profiles throughout the world where we can find people where people might not even be looking for jobs. Of course, Monster is a very big part of that. I'll talk a little bit later around Monster, but a development I would like to mention here is the video and digital assessments that we've now rolled out into 21 countries and going very well helps the -- what we call customer experience of our candidates.

Moving to the next slide, talking a bit through the regions and the countries. So North America. Some good news here on the top line. As you see, our Staffing and Inhouse business, they grew 5%, up from 2%. We're quite ahead of market in blue collar, again, through Inhouse, but also, in general, blue collar. White collar is improving, although the white-collar market in the U.S. is still somewhat sluggish. And as we mentioned before, we think this is also the early signs of digitization, also disintermediating certain jobs, but overall, a good top line.

Our U.S. Profs also improving. Our technologies business is around 3%, 4% growth at market currently, and our white-collar business, which had a tough time, is now closing in on the 0 mark, so very happy with that development.

Our Canadian market, we're doing very well, above average growth, and #1 in that market now, but hit by legislation. So in Ontario, which is a big part of our business, minimum wage was increased with 20%, and that leads to a less demand. It hits volume. We've seen that also in Europe. When you go into equal pay or steep increases in hourly rates or salaries, at least threw a bit of a damper on volume. So that's what we're seeing in our Canadian business, which is 10% of our North American business overall. And then you see a somewhat less EBITA margin, very much driven by temporary effects, very U.S.-centric also. A higher workers' comp, high health care cost. We are self-insured here, and we're also investing, but we'll feel that, that will definitely be good going forward if this trend continues.

The Dutch business, quite consistent picture here, very much concentrating on keeping the market sound, still walking away from clients. Overall, pretty stable margin development. Happy with our Professionals growth, 15%, a stable EBITA percentage. You might say professional is going 15%, it should have had an upward effect. A part of this business is where we manage freelancers. Freelancers is 15% of the current workforce in the Netherlands. We are a big broker of freelancers, so it is revenue, but the profitability of that is slightly below par of the Professionals business. Still good business, but overall, multi -- the drive we see in Professionals. Also, we invested a lot in perm here, which is not as materializing yet as we would see, but still maintaining the investment because we do feel there's potential in the Dutch market.

Our French business, France has been -- moving to Slide 8 -- our French -- oops, yes, Slide 8, yes, there we are. And our French business been the rock star for a long time. It was one of the markets where we faced tougher comps, 5% tougher comps, Q1 to Q2, and growth has been less -- certainly less than Q1. It's a mix. For us, it's also walking away from some contracts, as you know, but it's also -- strikes, bridge days. But overall, there is a slowdown in growth. Because it has been so steep, we have been overinvested a bit in the market here. As you know, we're very tight on headcount steering. So very much going forward in France, we will adjust. Professionals still up good. CICE, we commented in the first quarter that we would offset the depreciation of CICE with growth, which we did with the 10% growth we had in Q1. In Q2, unfortunately, that's not possible. So going forward, adjustment in cost in France.

Germany, solid performance. There is -- due to equal treatment, volume growth is not spectacular. But yes, our bill rates increased. So still a good revenue growth. Professionals quite stable, and a very good improved performance also because of the acceleration of perm in our German business, which grew 29% in Q2, very happy with that.

We go to -- probably the company we are most happy with almost always, which is our Belgium business. A very solid performer, as you can see, above market, high market share and still above market with a revenue growth of 7%. Staffing and Inhouse, you can see. And again, an uptick in EBITDA margin and 35% growth, a little bit less than Q1, but still 35% growth in perm. So across the board, a very solid performance of our Belgium business.

Italy, again, tougher comps here, 6% tougher comps Q1, Q2. And still, we're also -- yes, disciplined on clients, disciplined on profitability. So we probably could grow faster in Italy, but we take a measured approach here. A lot of talks about the legislative changes in Italy, still too early to call, but a good EBITA development in our Italian business, and again, 10% growth on the spectacular growth of last year.

Iberia, 8% tougher comps. So you very much see that the comp story is a Southern European story, as you know, but here you see a great management, of course. So Iberia saw this coming, reacted quickly. And you see has relatively lower growth, still an EBITA improvement as a percentage, so very well done here in our Spanish business.

The rest of Europe, growth. Sometimes tough comps also here, for example, our Swiss business, but still doing well, pretty stable picture. Profitability hampered by our U.K. business, which sees negative perm, probably related to the Brexit here.

And then, as already mentioned in my opening statements, rest of the world. Our Japanese business, very, very profitable business for us, 9% growth in the top line, but also permanent placement and Professionals doing very well. Australia, New Zealand, we're thinking of above market performance here. Our Chinese business doing very well. Also our Singaporean business, we moved the market leadership here. This is a small business, but it's a perm business with a very, very nice return. So it all helps. Latin America, of course, overall, still a young market, but doing very well. In Mexico, Brazil, Argentina are our main countries here, also doing very well in our Sourceright business, our RPO business.

And that brings me to our global businesses, Sourceright and Monster. Sourceright, great quarter. We are now above EUR 1 billion of managed spend in the quarter. We think, because there is quite a lot of data on this market, we're outperforming the market. What we see in the technological, the data-driven scarce talent space is that clients are increasingly looking for us to manage their total talent, as we call it.

Monster, yes, still stable on the top line, decreased, unfortunately. But an increased usage of the runs of the data of Monster. So going back to Sourceright. Sourceright is an early adopter of the data of Monster. What happens here? So we have talent advisers. So they go to clients and they show them what the labor market looks like to really get into quick delivery, it's still possible in a local labor market. And they use the Randstad data, but they also use the Monster data. So that definitely gives us an edge in this market. That is happening in more markets in Europe, so -- and this has been one of the goals with Monster. Again, back to my opening statements, Monster was very much for us to get the biggest data lake available in the staffing sector and to really help our clients to find people. And I told this morning at a press interview, if we can't find them, nobody can. And we also help our clients to adjust the profile where needed if the right profile is not available anymore. So doing very well.

Next to that, we're working, as we mentioned also earlier, on new business models. Not telling you a lot about it, but you should think to create -- that we are creating, as we call them, talent-centric pools of scarce profiles, so enriching the profiles of the people we have in the Monster database. So effectively, this could lead to a direct permanent placement with the client. Now we're going to introduce this in the U.S. market in the second half of the year, and we'll keep you posted on the developments here. And as mentioned, also financially, Monster is very much under control, so we reiterate our guidance that we gave for the first quarter.

That's it for me on the overall performance, and I give over to Henry Schirmer for the financials.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Thanks, Jacques. So it's my pleasure to take you through the financial results and then move to Q&A after that.

Let's go straight to the P&L on Page 13. Here we go. If we look at revenue down to EBITA quarter 2 year-over-year, and as discussed by Jacques, we reported a solid revenue growth of 5% against the tough comparison quarter 2 last year.

Just as a reminder, in 2017, top line growth was 6% in quarter 1 and jumped to 9% in quarter 2 and stayed pretty much there for quarter 3 and quarter 4. Hence, quarter 2 this year is the quarter where it gets slightly tougher to show very strong growth year-over-year. It was also good to see the strength of our portfolio coming through. Perm, Inhouse and rest of the world grew double digits with excellent conversion.

On the next line, gross margin came in at 19.8%, down 60 basis points and ahead of guidance. And operating expenses are up 2% year-over-year and well monitored and under control. It's clearly something I noted during my on-boarding visits to Randstad locations in many parts of the world. Randstad is a commercially savvy organization with a very clear understanding how to drive top and bottom line.

And last but not least on that page, EBITDA came in at EUR 283 million, 4.7% EBITDA margin, 20 basis points up year-over-year.

As far as working days are concerned, quarter 2 was a pretty clean quarter with just .4 extra days, hence, not an awful lot of tailwind from that side. And I guess, I should not leave the page without mentioning that ICR for the last 4 quarters was about 50%. It was even higher in quarter 2. Our business demonstrates that it's willing and able to build a strong track record of conversion.

On Page 14, I'd like to take you through the gross margin in a bit more detail. Yes, it's up. Here we go. So the left bar in blue shows the quarter 2 '17 gross margin of 20.4%. At the very right, also in blue, it shows the quarter 2 '18 gross margin of 19.8%. And as I said on the prior page, the gross margin came through ahead of guidance and 60 basis points below last year. The fact that year-over-year, the gross margin is showing up lower is mostly related to mix. Let me lay that out in a bit more detail. So the first red bar on the left shows the impacts of our temp gross margin, which is 30 basis points gross margin dilutive. However, 10 of the 30 basis points are due to lower CICE payments in France. As a reminder, of 20 basis points is mainly down to our fast-growing Inhouse business, which is actually converting very well into EBITA, very much in line with the last quarter.

The bar in the middle, 10 basis points is a positive impact for our fast growing perm business. It's all fee income, and therefore, gross margin accretive. Lastly, the red bar on the right represents HR Services, Monster, including ForEx impact. The decline is primarily driven by Monster Hunt. And fee business, as you know, is still in decline, and hence, it shows up as a negative mix in the bridge. It's a pure technical effect.

As our business gets more diverse, using different delivery models and concepts we had quite some mix effect at play here. We always have an eye on gross profit in relation to OpEx to ensure enough benefits showing up in the EBITA. It's also reassuring that the underlying price environment is stable and even improving in some areas like in France and Italy. Please note that we do naturally expect gross margin for quarter 3 coming out slightly lower sequentially due to the holiday season.

And that brings me to the OpEx bridge on Page 15. Yes. Also here, let me lay out before jumping in what it shows. The left blue bar is quarter 1 '18 showing EUR 897 million. And on the very right-hand side of the bridge, also in blue, we show quarter 2 '18 with EUR 908 million.

So the first part of the bridge shows the ForEx impact on OpEx, which is EUR 7 million. The middle red bar is the organic net increase of OpEx of EUR 6 million, and then a EUR 2 million benefit in other. And I'm sure you've picked up out of our press release, organic OpEx increased by 1% to EUR 6 million sequentially and 2% year-over-year. Also, productivity measured as gross profit per FTE was 2% higher year-over-year on an organic basis.

Then we say we are constantly looking for the right balance between capacity for growth and smart choices to secure productivity, which actually worked out well in quarter 2. We do our best for finding the right balance over the remainder of the year. It will be key to drive the business for leverage going forward. We are operating in volatile and uncertain markets. And in the absence of visibility, we will certainly drive for agility and resilience.

Let me close that chart with the confirmation that we are fully on track to deliver our cost-savings target of EUR 90 million to EUR 100 million annual by 2019, as presented at the Capital Markets Day in November '17.

So we're going to the next page, just covering the P&L and taking a closer look at the gross margin and OpEx. It is now time to shed some light on free cash flow and the balance sheet on Page 16. So it's quite simple. In our Q2, our free cash flow improved by EUR 87 million versus quarter 2 last year, and the main driver for the improved free cash flow year-over-year was the much lower working capital outflow, partially related to the reversal of unfavorable timings of payments in quarter 1 2018. We spoke about this in the first quarter. This more than offsets the adverse effect of incidentally higher tax prepayments in quarter 2 '18 and tax payments made in relation to the Careo Exposition in Japan. This one-off Careo tax payment will slightly drive up our cash tax rate. However, it will be beneficial in our [ETF] for the full year. Therefore, we guide for a slightly lower range from 23% to 25% compared to the 24% to 26% we guided before.

The next bullet shows days sales outstanding, which increased by 2 days on the 12-month moving average, mainly due to mixed effect.

So from my -- may I now ask you to have a look at the right side of the chart covering the balance sheet. Net debt came in at EUR 49 million lower than last year, and we report a leverage ratio of 1.3x versus the 1.5x we showed last year. Most of you will know that the second quarter is traditionally where net debt is at its highest point in the year. We have accumulated dividend payments and payments of holiday allowances. And from now onwards, we shall see the balance sheet deleveraging throughout the year.

Seasonally, H2 is also the time of strong cash flows, and we iterate our guidance for higher free cash flow year-over-year. Just be reminded that in September, the special dividend will be paid out at EUR 0.69 per share.

So let me now summarize the key messages and provide you with an outlook for the full year 2018 on Page 17. Firstly, the quarter brought solid top line growth and strong margin conversion. EBITA improved by 20 basis points year-over-year. Secondly, our Tech & Touch strategy is well underway and embedded in our business. And I'm glad I could see it during my on-boarding visits. It's alive and kicking, and it's touching many parts of the business in many various ways. And thirdly, we are well positioned to deliver a full year EBITA margin ahead of our last year's 4.6%, [provided we see] at least 4% to 5% top line growth.

And on the right side of the chart, I'd like to mention the fact that June grew at a similar pace as quarter 2, about 5%, as the development of volumes in early July indicate a continuation of the Q2 growth rate.

So to wrap up, I already mentioned the gross margin for Q3 is expected to be slightly lower sequentially given seasonality trend. We also expect OpEx to be broadly stable sequentially.

So that concludes our prepared remarks, and I hope it had shed some light on our Q2 performance. We will be delighted to take your questions. Molly, back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Marc Zwartsenburg calling from ING.

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

First a question on Monster. Can you perhaps give a bit of an indication what you expect for the second half in terms of top line performance there? Should we expect some bottoming there given that comps are getting easier, but perhaps also because of businesses is improving? Or do you have some data points there? And also, in terms of profitability, while we're closer -- getting closer to breakeven, will we already see breakeven results in Q3? Or is that still scheduled for Q4? So that's on Monster. The second one is on growth. With unemployment moving, moving lower and lower, is scarcity already getting an issue in certain regions like Germany or France or in the Benelux? And maybe you can also share a few words on the U.S., what you're seeing there in terms of top line performance, a slight acceleration or some [empowering, anything] to a slight improvement, although a different trend there. But can you give us a bit of feel for what you see in terms of cycle in the U.S.? And then lastly, on the gross margin. Should we, going forward, now see the mix improving a bit and also the pricing improvement? And in which regions do you see that happening?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Yes. Monster is very much the play between the traditional business at Monster, which is the online ads, online ads from newspapers. We commented also that when we bought Monster, that Monster was a bit too slow to adapt to the new job boarding revenue, which is very much solution-based. So we are heavily investing in solution-based selling, so very targeted social media searches, pay per candidate, pay per click. That business is growing, but at the same time, the traditional business is not growing. So it's very much going to be the tradeoff between those 2, which will define the top line for the second half of the year and the next year. So we'll let you know. At the same time, ad business is financially very much under control. We've taken out cost again. But we're also, at the same time, investing to make it possible for the Randstad companies also to better benefit from the Monster database. We invested a lot in mobile applications within Monster, so we had the [Jovar] app that Monster already had in its portfolio, but not implemented at the front end. That's now implemented in every Monster country, and it drives 1/3 of current applications. So that's important for Monster. It's also important for Randstad. Scarcity, yes, well, actually, we're very happy with the fact that we have this data-driven strategy. As you know, we can now show in our major markets what the labor market looks like. Effectively, nobody can do this. So we can discuss with the client if the profile is still available. If it's available, where it's available. If it's available, at what price they need to pay for it, either perm or as a contingent worker. Or if it's not available in the region, should we do something with training? We're training across the board, but more than 25,000 people annually just in our Dutch business. And if not available regionally or through training, should they come from abroad? So that's very much a discussion with clients, and that goes into your gross margin question. Yes, this is also what clients need to pay for. So if not, if they still do the old procurement play, then it's not going to happen with us. So scarcity is a relative thing. If we can't find them, nobody can. In U.S., a good top line development absolutely in staffing. We are way above market, fortunately, in blue collar. Does this signal a return to growth of the U.S. economy? I don't really know. But so far, so good.

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

And also, the breakeven level, is that still scheduled for Q4? Or should we expect that earlier?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Just very much what we said in the Q1 call. So we don't expect breakeven. Q4 might be, might be, but it might also be a small loss, but these are choices. These are choices we also make on the investment level.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Marc, let me just add here. We iterate our guidance for about EUR 5 million to EUR 10 million loss on Monster, and that would actually come with a abating of the losses we've seen in the first half for the second one.

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

EUR 5 million is for the full year, you mean?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Yes, yes, for full year. So we are -- I just want to signal we're in control here, and on -- as far as [finance] are concerned.

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

Then maybe one small follow-up, Jacques, if I may, because you mentioned something on some disintermediation on the prof level in the U.S. Can you perhaps paint us a bit what the picture is there? What you're seeing there?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

When we comment on the future of digitization, we always say it's not going to be the Armageddon that digitization takes a lot of jobs, but there are jobs if they are pretty routine certainly in white collar. They are, to a certain extent, being disintermediated. We see this in our sales funnel in white collar. We also see it in the white collar market development in the U.S. We also see it, to a lesser extent, in our Dutch business, which in large administrative clients who just want less white collar because part of these jobs are being offshored or automated. Yes, so it's not a scientific proof yet, but it is very much an early sign we're seeing in the market.

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

And you're active in that field as well?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

In which field?

Marc Zwartsenburg - *ING Groep N.V., Research Division - Head of Benelux Equity Research*

That where these disintermediating companies are active and the competition is kind of popping up, is it also that you are taking part of that cake?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Not for disintermediating as such in different ways to get people. This is just jobs disappearing. So I mentioned this, I was in Silicon Valley last week and the receptionists are not like real people. They are iPads on a stick, and these people are sitting in Seattle. So you work at a bank, you know what goes on, heavily invested in IT also to automate their back-office processes. And then, of course, it has predominantly an effect on white-collar jobs.

Operator

The next question comes from the line of Srinivas calling from HSBC.

Srinivasa Raju Sarikonda - *HSBC, Research Division - Analyst*

This is Srini from HSBC. A couple of questions for me, please. In terms of organic growth slowdown, is it just tough comps? Or is that a factor of pricing discipline, basically resulting in letting go some of your contracts? And is that a factor of slowdown in underlying markets? And in terms of gross margin, temp gross margin, you said mix and pricing. What will lead that to reverse? Do you expect that to reverse? Or this will be the new base we should be considering going forward? And lastly, on pricing. So historically, you were able to charge higher prices when there's a situation of labor scarcity. So do you see such situations in any parts of your business or any regions or something like that?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

The first one, and Henry will take the second one. Well, of course, we grew 7.5% in Q1. We're growing 5% in Q2 at a 3% tougher comparison. So it's mainly tough comps. And we could grow faster. We could grow faster in France. We could grow faster in Germany, Italy predominantly, because, yes, we're still disciplined on pricing and that shows also in our result development.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

So on gross margin, so there is clearly a pricing discipline in the business. But on temp margin, on your question, with something like a strong Inhouse growth that comes at slightly lower gross margin, but it's actually converting really well into EBITA. So just looking at gross margin, it's just kind of only one part of the picture. Pricing, overall, I spend -- actually, I come from [S into G] pricing, it's a big part here. You have seen good, good pricing tools, where we start for -- scout for -- price for scarcity, and it uses also as a good set tool in getting deals done. So yes, I've seen outpricing for scarcity.

Srinivasa Raju Sarikonda - *HSBC, Research Division - Analyst*

Okay. So, so far, you said like the prices remain stable. So you believe that the scarcity-driven price yet to come? Or do you think it's already started in some parts of the business?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Well, some of -- some parts of the business, I see that we are pricing for scarcity, yes. Does it move the needle yet, probably not. But there's pockets there for sure.

Operator

(Operator Instructions) The next question comes from the line of Simona Sarli calling from Bank of America.

Simona Sarli - *BofA Merrill Lynch, Research Division - Research Analyst*

I have 3 of them, please. The first one is on gross margin. And if you could please provide more color on the building blocks of the gross margin going into Q3 in terms of temp, perm, gross margin, working day impact, pricing and Monster. The second question is regarding OpEx. If you could please give an update how much your OpEx was increasing with and without Monster and also if there is a chance to quantify the SG&A for Monster. And last question is on Italy, and what you think might potentially be the impact from the Dignity Decree for yourself and the overall staffing industry, if you think that this might potentially increase the candidate turnover and thus the acquisition costs in the industry.

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

I'll take the Italian question. There's a lot going on, but it's too early to tell what the effects on our business will be. It's still very much in design. So we'll let you know as soon as we know more.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Yes. Let me take the first part of the gross margin question, and then I'll ask David to take the tougher part, if you may. So actually I don't like to completely take apart the gross margin here. As far as guidance is concerned for quarter 3, it is pretty stable as we see it going forward. We see, seasonality-wise, a test of gross margin going down. So when you just compare last year, we had 24 in quarter 2, then that came down in quarter

3 to 21. So actually, the dilution we expect going forward is also going down a little bit, but as I'm saying it [doesn't] make sense if you completely take it into parts. David, take the other part?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

And also, we don't know, of course, because it's also which market are growing more. We do have some markets with quite a steep seasonal effect, the Belgian market, the French market, the Dutch market. So it's very tough to predict. And as Henry said, you shouldn't concentrate on the absolute level of gross margin in our business. It's very much the ICR, which is currently doing very well.

David Tailleur - *Randstad NV - Director IR*

Yes, Simona, it's David here, let me give you a bit more color on the temp margin and the other constituents. So price mix, we don't quantify, but this is mainly mix, and which is about 20 basis points. And then CICE is still about 10 and Monster the 40 basis points, that's the biggest part of the 40 basis points in H2 is Monster, and that includes FX, which is a smaller part of that 40 basis points. There's a bit of working day effect as well, and the part we mentioned in Q1, strike, sickness, et cetera, are not showing up as a year-on-year impact in Q2. Hopefully, that helps.

Simona Sarli - *BofA Merrill Lynch, Research Division - Research Analyst*

As a quick follow-up, so if I look, for example, last year, right, where your gross margin went down from 20.4% to 20.1%, I would assume that it was mostly related to seasonality. Should I assume something along these lines also this year with roughly a 30 basis point dilution quarter-over-quarter coming from seasonality? Or will be like less than that in your view?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

No. From our view, it will be less than that.

Simona Sarli - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And like also in terms of OpEx, which is like an indication that you were already giving like in Q1. Is there a chance that you can give an indication how much of your OpEx was increasing with and without Monster?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

That is...

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Yes, I can answer that one. Without Monster, it was between 4% and 5% organically. Including Monster, the OpEx growth was about 2%.

Simona Sarli - *BofA Merrill Lynch, Research Division - Research Analyst*

So your OpEx, you were still increasing 4% to 5% despite of slowdown in organic growth?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Yes, we continue to invest in the future as well, definitely.

Operator

The next question comes from the line of Konrad Zomer calling from ABN.

Konrad Zomer - *ABN AMRO Bank N.V., Research Division - Equity Research Analyst*

My first question is if you could explain to us why there was a EUR 7 million positive currency effect on your operating expenses, particularly why that was positive and not negative. The second question is your margin development in the rest of the world was very favorable. Can you maybe split that out by geography a little bit more? And my last question is on CICE, the 10 basis points of negative impact on your gross margin in Q2. Can you maybe remind us what you expect the full year 2018 impact of CICE will be, please?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

All right. Hi, Konrad. So thanks for your questions. So the first one -- sorry, what was the question again?

Konrad Zomer - *ABN AMRO Bank N.V., Research Division - Equity Research Analyst*

The EUR 7 million of positive effect.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Yes, absolutely. So that excludes the ForEx effect related to an intercompany fund transaction. It's just internal financing. And if you're interested we can take you through the details in a one-to-one there. The second one, the -- we had really good conversion in rest of the world business, but it's also sad to say that there's small incidentals in there, which perhaps helped driving good EBITA margin. And so the third one on the CICE, Jacques, would you like to talk about it, the total CICE effect on gross margin? So it's 10 bps this quarter?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

No, and it's tough to say what the outlook is because [back on the market] it very much depends on our growth for the rest of the year in France, and that's currently tough to call. So we don't know. Of course, the higher we grow, the less you have the seasonal effect or the CICE effect, and you can compensate. But we'll let you know in the coming quarters. For the rest of the world, some -- it's pretty broad-based, but what you should take into account, most of these businesses, with the exception of the Australian and the Japanese business, are perm businesses. So if they all deliver quite strongly, which they have in Q2, it gives us a good return. So some businesses are small, but they all contribute now. So it's pretty much across the board here.

Operator

The next question comes from the line of Tom Sykes calling from Deutsche Bank.

Thomas Richard Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

Just firstly on the U.S. business. You mentioned that it was going to be a temporary effect of workers' comp, health care and your investment on the operational gearing. So how quickly would you expect that to reverse, please? And then just a point on the data strategy is that I think one of the earliest places you put it in was in France. I remember the presentation we had in London some time ago. And currently, you seem to be a bit below market and your operating margin is going down in France. So why should we believe that, that data strategy is going to enable you to take profitable market share?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Tom, thanks for your question. So on the U.S. margin, that's right. So we see those temporary effects of workers' comp. It was also exceptionally higher health care cost, which we don't hope to repeat. There's clear expectation that we see our margins coming back in quarter 3 and quarter 4. To what extent, remains to be seen. But we have our eyes on the ball there. And -- but clearly, the expectation is that margins will come out better than in quarter 2.

Thomas Richard Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

So would that be, you think, back to flat year-on-year or you may be able to get margins actually up year-on-year in the U.S.?

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

I don't want to say. It also depends pretty much on the growth we see going forward. Rest assured, that we are very, very close to steering that.

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Then back to digital and profitable market share. So yes, we started in France. But what you see here is we started in our Inhouse business. By the way, that still shows good growth. And we also have a sort of better productivity here. We're now moving to, what we call, the Youplan clients or the small to midsized clients that we implement this to. And then, over time, we take market share because we squeeze out competition. That takes some time, so that's also why I mentioned that the growth effect of all these investments will definitely be seen in 2019 and beyond.

Thomas Richard Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

Okay. And then when we look at the ICR, just on Inhouse versus Staffing. Obviously, you're growing a little bit more slowly in the Inhouse business in Q2 versus Q1 year-on-year, but is that -- do you just bet down a bit more with clients? Is the ICR actually going up a bit with Inhouse clients? And would you be able to confirm whether you're actually seeing an improvement in just staffing EBITA? I mean, I know you don't tend to split that out, but if it's possible to give some guide as to where the ICR on Inhouse is versus the ICR of the groups, that would be great, please.

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Point of Inhouse is the conversion rate. So it's the conversion rate from gross margin into EBITA. We don't do ICRs per business line. Effectively, of course, if we have got a new Inhouse client, for example, in the first year, the ICR is actually negative because you set up shop and you invest a lot in that client. And then overall, it increases if you take market share. If the client is flat or going slightly down, then the ICR in Inhouse, yes, if you cannot take out people, actually, it goes down. So that's why we manage ICR very much at a group level, at least at a country level, but also as a group level as in where are we investing. And the fact that the ICR this quarter was very good is also because we see a broad-based growth, not so much just inhouse, but also in our rest of the world business. In staffing, absolutely, in SME staffing, so that helps a good ICR.

Thomas Richard Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

Sorry, just final one, but just be specifically on Inhouse. As that growth is slowing a little, are you actually seeing the profitability come up a little? Then is that fair to say?

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Why should that be? No.

Thomas Richard Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

So you just said that when you -- initial stages of growth, sometimes it's lower margin if not profitable. So as you've gone from 17% to 12% growth there, is there any improvement in profitability or is it just you bet down clients. If not, then don't worry. It's fine. I'll leave it there.

David Tailleur - *Randstad NV - Director IR*

(inaudible) answer your question, the 20 basis point increase in the EBITA margin is broad-based. So it's visible, to a large degree, both in Staffing/Inhouse and Professionals.

Operator

The final question comes from the line of George Gregory calling from Exane.

George Nicholas Gregory - *Exane BNP Paribas, Research Division - Research Analyst*

I've got a few, please, quickly. Firstly, just you mentioned some incidentals in the rest of world. I wondered if you could give a range or quantify those. Secondly, corporate expenses have been tracking down Q2 and Q1. I just wonder if that was a trend you'd expect to sustain in the current range for the remainder of the year. And finally, just on CICE. Thinking ahead to 2019, just wondered if you could give any thoughts in terms of the likely expected net impact on your earnings, taking into account any potential increase in the subsidy on the lower band of minimum wages, I mean are low salary bands offset by the loss of tax deductibility, please.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Let me try to cover all 3, George. So the first one on incidentals, as you say, I always call it the nonmaterial amount. So think about EUR 1 million or EUR 2 million here. On the corporate costs, actually there is an impact that we've allocated out more costs into our operating businesses. So it's more or less flat underlying. And the third one, actually there's no news on the CICE one. There's nothing we can add to what we've already discussed in quarter 1, and we will keep you posted as soon as we find out more about it.

Operator

We have no further questions in the queue, so I'd now like to hand the call back over to your host for any concluding remarks.

Jacques van den Broek - *Randstad NV - CEO & Chair of the Executive Board*

Absolutely. Thanks, everybody, for calling in. Thanks for your questions. I wish you all a great and lovely summer as you see when you look outside, and hope to see you soon in September to discuss further on our numbers.

Henry R. Schirmer - *Randstad NV - Member of the Executive Board*

Thank you.

Operator

Thank you for joining today's call. You may now disconnect your handsets.