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PageGroup Full Year 2023 Results

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Headline Numbers

Kelvin Stagg

CFO, PageGroup

Welcome

Good morning, everyone, and welcome to the PageGroup 2023 Full Year Results Presentation. I am Kelvin Stagg, Chief Financial Officer. And on the call with me is Nick Kirk, Chief Executive Officer.

Disclaimer

Although I will not read it through, I would just like to make reference to the legal formalities that are covered in the cautionary statement in the appendix to this presentation and which will also be available on our website following the call.

Resilient performance in tough conditions

Key financial highlights

The Group delivered gross profit of just over £1 billion in 2023, which represented a decline of 6.3% in constant currencies against 2022. Our operating profit for the year was £118.8 million, down from our record year of £196.1 million in 2022, and our conversion rate was 11.8%.

Earnings per share was 24.4p, and we ended the year with a strong financial position with net cash of £90.1 million compared with £131.5 million at the end of 2022. This was after returning £100 million in dividends to shareholders in the year.

Today, we are proposing a final dividend of 11.24p per share, an increase of 4.5% on 2022. Together with the interim and special dividends, this results in a total 2023 dividend per share of 32.24p.

Financial Review

I will now move on to the financial review.

Productivity remained at record levels

Proactive reduction in headcount

This fee earner headcount and gross profit chart demonstrates how our fee earner headcount responds to movements in gross profit. As trading conditions deteriorated through 2023, we reduced our fee earner headcount each quarter from the peak of 7,071 in Q3 2022 to 5,851 at the end of Q4 2023.

Due to our action on headcount, productivity remained at record levels, with gross profit per fee earner of £159,000. Despite challenging market conditions, we delivered operating profit of £118.8 million in 2023, while our conversion rate decreased from 18.2% to 11.8%.

Group Operating Profit of £118.8m

Conversion Rate of 11.8%

Looking at each of our regions, starting with our largest, EMEA, representing 55% of the Group, gross profit grew 0.3% in constant currencies on 2022.

EMEA delivered the Group's highest conversion rate of 16.8%. This was reflective of the region experiencing more resilient trading conditions through 2023. EMEA also has the Group's highest proportion of non-permanent recruitment, which has been more resilient in the tough market conditions.

In the Americas, representing 17% of the Group, gross profit decreased by 9.2%. Additions in Latin America were more resilient than in North America, and as a result, the conversion rate improved marginally to 10.2%.

In Asia Pacific, representing 16% of the Group, gross profit declined 14.3% due primarily to the prolonged downturn in Greater China. We made the strategic decision to hold on to our most experienced fee earners in this market, which impacted the 2023 conversion rate. It will position us for strong growth when conditions improve.

In the UK, representing 12% of the Group, gross profit declined 16.4% on 2022. While the UK trading business was profitable despite the tough trading conditions, a high proportion of senior management and Group functions based in the UK make the region delivered a small loss in 2023.

Technology now represents 14% of Group

Tough conditions in all disciplines

Conditions were tough across all disciplines in 2023, with clients in Canada uncertainty, impacting the conversion of activity levels into revenue.

Our technology discipline, one of our key areas of strategic focus, now represents 14% of the Group. This was despite the reduced confidence due to the well-publicised challenges in the technology sector.

Strategic review of cost base

Net impact of c.£2m of FY23

As part of our refined strategy, and our increased focus on our conversion rate, we have already implemented a number of initiatives to reduce our cost base. These initiatives focus mainly on:

- Removing management layers;
- Some small office closures, including our onshore presence in Sweden; and
- Ensuring our operational support functions continue to align to the lower fee earner headcount.

These initiatives have incurred a one-off cost in 2023 of around £11 million. However, this was partially offset by associated cost savings of around £9 million. The net negative impact was therefore around £2 million.

Going forward, we expect these initiatives to deliver annualised savings of around £20 million per year. However, this benefit was partially offset by inflationary salary rises made in January, which added around £10 million to our 2024 cost base.

Effective Tax Rate (ETR)

Effective tax rate increased to 34% in 2023

The tax charge for the year was £40.4 million, which represented an effective tax rate of 34.4% higher than the 28.5% in 2022. The UK tax rate increased to 23.5% in 2023 from 19% in 2022.

In addition, the change in profit mix with more profit and higher tax rates in overseas countries also increased the tax rate. In 2024, the effective tax rate is expected to be around 30%.

A strong and robust balance sheet

Net cash of £90.1m

Our balance sheet remains strong. Intangible assets decreased by £7.9 million compared to 2022, due mainly to the development of our global operating system, Customer Connect, being completed in 2022.

Tangible assets increased by £11.4 million due mainly to fit outs and several office moves, including the consolidation of our three London offices into 80 Strand. Trade and other receivables decreased by £57.2 million driven by the reduced levels of trading activity.

After returning a total of £100.1 million to shareholders by way of ordinary and special dividends in 2023, net cash at the end of the year was £90.1 million. Overall, net assets decreased from £352.2 million to £306.5 million.

Strong cash flow generation

Substantial EBITDA enabled dividend payments of £100.1m

This slide shows the key movements in our cash during the year. Our EBITDA inflow was £191.9 million and an unwind of working capital also increased net cash by £20 million.

Tax and net interest payments were £57.8 million. Net capital expenditure was £30.8 million for the year, broadly in line with 2022, with increased spend on office fit outs, offset by reduced spend on Customer Connect.

Payments made in relation to lease liabilities reduced cash by £40 million. Share option exercises remained low due to the subdued share prices with only 0.6 million exercises during the year, adding £1.9 million to our net cash position. The Group also purchased shares costing £17.5 million in March into the Employee Benefit Trust, hedge our liabilities under the Group share plans.

The largest outflow of cash, totalling £100.1 million related to dividends. I will expand on this further on the next slide. The overall impact of these cash flows was to decrease the Group's net cash position by £41.4 million to £90.1 million at the end of the year.

Overall, despite the tougher trading conditions in 2023, we delivered a pre-tax conversion rate of over 100%.

Clear capital allocation strategy

£100.1m returned to Shareholders in 2023

PageGroup operates a highly cash-generative business model with very high levels of cash conversion. We have a clear capital allocation strategy with three defined and well-established uses of cash.

The first and primary use is to satisfy the operational and investment requirements of the Group, such as investing in additional headcounts and continuing to roll out technology as well as to hedge liabilities under the Group share plans.

The second use of cash is for the payment of ordinary dividends, where our policy is to maintain these through a downturn, which we have done in all years apart from 2020 and to increase them when trading conditions are more favourable.

Finally, any remaining cash surplus is to be distributed to shareholders by way of a supplementary return.

Today, the Group announced the proposed final ordinary dividend of 11.24p per share, an increase of 4.5% on 2022. Subject to shareholder approval at the AGM, this will be paid on 21st June to shareholders on the register as at 17th May.

When combined with the ordinary dividend of 5.13p per share, this gives a total ordinary dividend for the year of 16.37p. Together with a special dividend of 15.87p paid last October, total dividends in 2023 was 32.24p. At the year-end share price of £4.87, this represents a total dividend yield of 6.6%.

Continued high Shareholder returns

Committed to returning cash to shareholders

This chart shows our proven track record of shareholder returns with capital returns made in all years since flotation, except 2020 due to the pandemic. Including the 2023 special dividend, we have returned over £410 million by way of special dividends since 2015. Together with share buybacks totalling £276 million and ordinary dividends in excess of £600 million, we have returned a total of £1.3 billion to shareholders since implementation.

Summary

I will now provide a brief summary of the full year results.

Summary

Resilient performance in tough conditions

We produced a resilient performance in 2023 in challenging market conditions. We saw good activity levels through most of the year, albeit the conversion of final interviews to accepted offers, and therefore, gross profit became increasingly challenging due to lower levels of candidate and client confidence.

Overall, gross profit in constant currencies declined to 6.3% and we delivered operating profit of £118.8 million at a conversion rate of 11.8%. We saw a slower end to 2023 due to macro uncertainty, impacting candidate and client sentiments, which has continued into January and February, albeit they are two of the smallest months of the year from a trading perspective.

Today, the Board has proposed a final dividend of 11.24p per share, a 4.5% increase on 2022, reflecting our confidence in the long-term strategic progress of the Group as well as the strength of our balance sheet.

Looking ahead, macroeconomic uncertainty persists. However, we have a highly diversified and adaptable business model, strong balance sheet and our cost base is under continuous review and can be adjusted rapidly to match market conditions.

We are also seeing the benefits from our investments in innovation and technology. Customer Connect is supporting productivity and enhancing customer experience. Page Insights is providing real-time data to inform business decisions for both Page and our customers. And we continue to work with our partners to deploy AI and automation tools into our working environment.

We made improvements to customer engagement with our client net promoter score increasing to 55 in 2023 from 52 in 2022. We also continued to develop our social impact programmes. And as a business, we changed 133,575 lives in 2023.

Given these fundamental strengths, we believe we will continue to perform well in the current challenging market conditions and we are confident in our ability to implement our new strategy, driving the long-term profitability of the Group.

That concludes the formal presentation for this morning. And Nick and I would now be happy to take any questions you may have.

Q&A

Hans Pluijgers (Kepler Cheuvreux): Two questions from my side. First of all, on the trends in January and February. You already indicated that December was soft. Could you maybe give some feeling on January, February, is it even softer or is it really comparable? And secondly, do you see any difference by region in trends going into 2024?

And secondly, on cost savings. You already indicated that you have, of course, your general cost savings programme, which you already announced at the CMD. But how do you see headcount progressing during Q1? And especially, how do you see drop-through rates developing through H1? Can you give some feeling on that?

Nick Kirk: Okay. Thanks, Hans. I will take the first two, and then Kelvin can pick up the last one. I mean we are conscious today that it is a full year results presentation rather than a two-month trading update. But we wanted to, at least give you some signposting because we thought that would be something that you will all ask about if we did not anyway.

As regards to January and February, I mean, what we are calling out really is no change in candidate and client sentiment. If you wanted more of a view around activity, the activity levels by that, we would be talking about new jobs registered, first interviews, etc., are similar to what you have seen in October and November, but sentiment has been the issue. It has been all the way through last year, and it continues to be a problem.

At the bottom end of the pipe, we work with candidates that are looking at typically management and leadership roles. Most of our recruitment is permanent. It is white collar. It is therefore at the more senior end of the market. Most of our candidates, therefore, as we said in the Q4 trading update would have been sat in December and thinking that, well, I will wait to see how my January appraisal goes. I will wait to see what bonus I get. I will wait to see what pay rise I get. I will wait to see what my boss says about 2024 and the prospects of the company and my prospects within the company.

Therefore, when we came back in January, we just had a month where all of those meetings were happening. And so I suppose as you move into February, then we start to get a bit more movements. But as we said in the update is that it is going to be a lot more about March, always

is. It is a big month for us. And we will be able to call that out for you when we give a Q1 trading update in about four weeks' time.

As regards to your second question, differences by region, again, I am not going to do that as an update for January and February. But towards the back end of last year, as you know, we saw some slowing, particularly in Europe. It is our biggest region. That was more felt in perm than non-perm. And so start they started to have some of the market conditions that we had experienced in places like the UK and the US earlier in the year. So that clearly is a concern.

So non-perm is more resilient, but we are predominantly a perm business. I think, generally speaking, most of the commentary is that perm is tough right now, and we are certainly experiencing that as well. But that would be the only region I would particularly call out.

Kelvin Stagg: With regards to headcount, I mean, our fee earner headcount has drifted a little bit in the first couple of months of the year. I o not think that is a surprise. I think we had a slowing into the end of last year. We would have hesitated on recruiting fee earners. I do not necessarily see that as being an ongoing trend through the year. It really does depend on how we trade and what level of trading.

In certain markets, and we have mentioned these before, certainly China and the US, we are now intending to hold on to the headcount we have got there. But the productivity is actually very good because it is the more junior people that have left and actually therefore are more experienced fee earners as an average higher cost because of their experience but are performing well in what is tricky markets in both of those.

Possibly, we will see a slight readjustment in Europe as we go into this year just depending on how Europe performs, given that we were at record levels in a number of countries in Europe, including Germany, Belgium, and Spain this time last year.

With regard to non-fee earner headcount, there will be a slightly unusual balance when we get to the end of the quarter. So we took the opportunity to rationalise our shared service centres with a lease break that was up on our UK shared service centre. And a tough decision, but we are shutting UK shared service centre and moving that activity into Barcelona for the UK and into Buenos Aires for North America.

That work is ongoing at the moment, and we will actually have 100 people leaving out of the UK in the beginning of April. So you will actually have double running of about 100 people at the end of the quarter, but that is a temporary thing, and we will be able to explain that again when we get to Q1.

Steve Woolf (DB Numis): Just one for me, please. I am just thinking sort of fee rates. In this kind of market where the candidates are the blocker more than the actual companies themselves, what typically tends to be the trend for fee rates? Is it more a question of they rise or are consistent because companies are still desperately to find the right people? Or is it a question of them drifting down because you are unable to find the right people at this point? So just any thoughts on fee rate trends, if possible.

Nick Kirk: Yes. Okay, Steve. No problem. So fee rates coming out of COVID started to really move up due to talent shortages. And they have remained at the same levels. They are at record levels. We have not seen any softening in the fee rates. And it is very explainable really because we already have talent shortages. Then you throw into the mix candidates that are

consciously not coming to market because they do not see the upside of a move in terms of a salary increase that makes it worthwhile.

There is also this shadow that is playing around in the background around work from home. I think a lot of people have potentially negotiated a deal with their employer through COVID and are worried that, that agreement that they have would disappear if they move to a new employer. So again, that is certainly at play in a number of markets.

But coming back to your original question, no, the fee rates have remained robust, even in the most challenging markets, they are still at really good levels and pretty much bordering on record levels, which is reflective of talent shortages.

Karl Green (RBC): Just two questions from me. Kelvin, I think you just referenced on the UK conversion ratio, the impact of the central costs, which are allocated to that region. Could you just remind us roughly how much they account for? So just thinking about the potential for leverage to the upside as we come out of the current top spot.

And then the second question, just unrelatedly, last year you talked a lot about Customer Connect, Page Insights and the fantastic productivity that will be benefits that could accrue from that. Just any update on the feedback you have had from consultants, in particular, as to how they are finding that in terms of intuitiveness, usability, and most importantly, effectiveness of doing the day job?

Nick Kirk: Yes, no problem. Thanks, Karl. Well, I will talk about the second question because I think, with technology, it is something that, as you know, just continually evolve. So the product that we had that we showed you in the summer is now a product that has more iterations, more developments and more features as we adapt the product based on the feedback. So we are always trying to give our consultants a product that really fits with what it is that they want.

And alongside that, what we are also trying to do is innovate, and I mentioned this in my statement around AI and automation to make sure that we are also giving them other tools that can help them do the job. So one that we are just rolling out of the business, it should be in about 80% of the business by the end of the year, is what we call a job ad generator, which allows AI to write adverts for our consultants rather than them doing it themselves.

We generate around about 25,000 new jobs per week. But only about 11,000 of them price this innovation turn into adverts because consultants would often take the view of, well, I might know the candidates that could fill this anyway. I do not want to run an advert. I have already got an advert out there that is similar to the last one. And that all came back to the fact that they took them typically about 30 minutes to write an advert, and they wanted to do other things that were more related in their eyes to generating revenue.

With the job advert generator you are suddenly looking at a process that has gone down to about three or four minutes. So the AI does what it needs to do. It generates the advert for them. They then check it and it then gets posted. So we get two benefits. We had a productivity gain for the consultant, so they are given time back. We estimate that it is around about 3.5 working days per year that we are giving them back that they would have spent writing adverts.

And secondly, it means that the higher proportion of the jobs that we actually generate turn into adverts, which helps from an SEO perspective. So I think the whole technology journey is

something that continues to move forward. And I guess, as we come out and see you and the other shareholders over the next few weeks during the road show, we are quite keen to give an update on some of the things that we have got either in the innovation lab, a proof-of-concept, a pilot stage or now moving to rollout because there is quite a lot of interesting stuff that fits all around, not only Customer Connect and Page Insights, but really that kind of ecosystem that we want to put around our consultants to make them more productive. Kelvin?

Kelvin Stagg: Coming back to you on that UK number. The number is just shy of around £15 million. A lot of the exec order are based here, which therefore had salary costs, but also higher share plan costs. We have got a fairly sizable business technology function based here, and our data function is based here.

And so when we look at it on its more statutory basis, there are a number of costs in there that are relatively fixed. Obviously, if the UK trading business picked up, that number stays about the same, and it has less of an impact on conversion rate. But with things being slightly challenging in the UK, the UK business did make a decent profit in the conditions it is operating in at the moment, but it was dragged down by just shy of about £15 million of fixed costs.

Rory McKenzie (UBS): I have two questions, please. Firstly, just to pick up on your comment on, I guess, that pay differential on changing jobs. What do you think that has come down to now? Am I right in that it is over 15% kind of pay left back in the peak of the market and now is maybe down to single digits? And how does that compare to, I guess, long-term average levels firstly?

And then secondly, can you comment on how you are seeing activity levels or conversion rates differ by average candidate salary levels? So I guess trying to unpick which parts of the market are slower than others. And could you maybe remind us of your average salary levels by region ideally? Or how you would characterise your position there?

Nick Kirk: Thanks, Rory. Okay. Well, firstly, pay differential. Yes, I mean, it was certainly over 15% at peak. I remember being in the US on a road show when we popped into our office in Chicago, and we are talking to our team there. And we have a big construction business, as you know, in the US, and they were talking an entry level to try get a candidate to move with 20% increase, and it could have been upwards from there 2025, etc.

So yes, I would say that in most of our markets, it was well north of 15% through 2021 and 2022. I think where it is now is probably, historically, the norm. I do not think that it is particularly frugal. I do not think it is particularly generous. I think it is where I would have experienced it being for most of my 30-year career at Michael Page, so something around about 5% or 10%, something in that region.

So that is where it was, where it is and how it can compare, which I think was the three parts of that question. I am not sure I fully understood your next question, activity levels by salary levels. Do you want to just make sure that I understand that and clarify what you want me to comment on?

Rory Mckenzie: I guess we probably still expect there are still shortages for the higher skills, maybe more senior staff in some areas versus maybe a bit more surplus labour or less willingness to commit to the jobs at the lower skill levels, if that makes sense. That is just kind of a theory. So I was wondering if you are seeing still more movement in staff at higher skill

levels with salary being a proxy for that compared to maybe a much slower market for the more entry-level staff or yes, lower paid staff basically?

Nick Kirk: I mean we do not really trade down at the bottom end of the market. So our entry level would be £30,000, £35,000, for instance, in the UK. So we are not really trading at the staffing end of the market.

I would generally say, Rory, that a good candidate is a good candidate, and they are always in short supply, whichever level you are looking at. So if you are speaking to consultants in Page Personnel, they will be looking for that really strong candidate that has got the right experience, the right motivations, terms of welling interview, etc., etc. And that would be same if you are chatting to someone in Page Executive. You are still looking for the same generic features through the CV, a person who can come in and interview well, can put themselves across well when they are in front of the clients.

So I do not think there is any real separation there. I think if you wondered around the desks, we are in the London office today, and chatted to consultancy, Page Personnel, Michael Page or Page Executive, they would all broadly give you the same commentary, which is there is always candidates on the market, always. That is not really the challenge. The challenge is finding the best candidates and the candidates that are going to go in and do a great job on behalf of our clients. So I think that is still just something that we see in all places.

Kelvin, I do know if you want to add anything?

Kelvin Stagg: Yes. I would say probably the only thing to add in, in terms of seniority of candidates is that you tend to think there is more jeopardy the more senior you are. So actually, if you are a highly paid candidate, you are probably going to think more about a move than a more junior candidate who is probably younger with less responsibilities, financial and family-wise. So that is not really about the activity. The activity is the same. But the likelihood of that activity turning into revenue is probably more, added to which the real driver at the moment is probably more perm to temp, but that is not really about matter of salary.

The last one on average salaries that we operate around different regions of the Group. I mean the UK is somewhere around £45,000. That is a decent chunk of Page Personnel in the UK that bring that back down a bit. In Europe, it is probably a bit higher. I mean we do a bit more senior work in parts of Europe. It is probably going to be somewhere around £48,000 to about £55,000, and so about £55,000 in Germany, about £48,000 in France.

The country, or two countries, I suppose, a bit of an outlier, the US. The average salary we place on in the US is nearer £95,000 as would be the case in Japan. Well, Latin America will be a bit lower. It is probably about £40,000 in Latin America in somewhere like Portugal. The majority of the other countries are going to be somewhere between £45,000 and £50,000.

Thank you. So as there are no further questions, thank you all for joining us this morning. Our next update will be our first quarter trading update on 15th April. Have a good day.

[END OF TRANSCRIPT]