# PageGroup plc
# 2024 Q1 Trading Update

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# Q1 Trading Update

Kelvin Stagg

*Chief Financial Officer, PageGroup*

## Welcome

Good morning, everyone, and welcome to the PageGroup 2024 First Quarter Trading Update. I am Kelvin Stagg, Chief Financial Officer. On the call with me is Nick Kirk, Chief Executive Officer.

Though 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 be available on our website following the call.

## Key Financial Highlights

*Challenging conditions continued in Q1 2024*

The Group delivered gross profit of £219.7 million in the quarter, a decline of 12.8% in constant currencies. This was against the Group's second largest ever Q1 and was also impacted by the reduced number of working days in March due to bank holidays and the timing of Easter.

Reflecting the uncertain macroeconomic conditions, our fee earner head count reduced by 100 or 1.7% during Q1, which was slower than the quarterly reductions in 2023. Overall, the Group ended the quarter with 5,751 fee earners, and a total headcount of 7,778.

Due primarily to this reduction in headcount, gross profit per fee earner, our measure of productivity, increased 1% on Q1 2023 despite the tough macroeconomic conditions. Our balance sheet remains strong, with net cash at the end of March of around £67 million. This compares to £90 million at the end of 2023, having paid our annual and quarterly bonuses in January, as well as having purchased £4 million worth of shares for the Employee Benefit Trust in March.

## Financial Review

## Q1 Perm and temp ratio

*Temporary recruitment more resilient than permanent*

I will now give a brief financial review.

Reflecting the uncertain macroeconomic conditions, temporary recruitment continued to outperform permanent as clients sought more flexible options. Temporary recruitment decreased by 6.7% against Q1 2023, with permanent down 14.9, reflecting this at ratio of permanent to temporary gross profit was 73:27.

In Michael Page permanent recruitment represented 82% of gross profit while in Page Personnel it was less at 48%. Michael Page was the stronger performing brand, down 11%, compared to a decline of 18% in Page Personnel. A proportion of the drop in permanent recruitment in Page Personnel was due to transitioning consultants to more profitable roles within Michael Page as a result of our new strategy.

**Decrease in fee earner headcount of 100**

*Reflecting continued challenging conditions*

We used attrition to manage down our fee earner headcount by 100 during the quarter, or 1.7%, which was slower than the quarterly reductions of around 250 in 2023. This was the sixth successive quarter of reductions in fee earner headcount, down 1,320 or 19% since the peak of 7,071 at the end of Q3 2022.

Our non-operations headcount increased by 19 in Q1 due to the double-running of around 50 heads as we transition activities out of our UK Shared Service Center into our centres in Barcelona and Buenos Aires. In total, our headcount is now 1,020 or 11.6% lower than in Q1 2023. Based on our current outlook, we intend to hold fee earner headcount broadly at existing levels to ensure we are well-placed to take advantage of opportunities as sentiment and confidence improve.

**Productivity up 1% on Q1 2023**

*Attrition used to manage down fee earner headcount*

Despite the decline in gross profit in the quarter, the reduction in our fee earner headcount over the past 12 months supported productivity, which was up 1% in constant currencies compared to Q1 2023. We exited the quarter more slowly, down 18%. However, this was impacted by the reduced number of working days in March due to bank holidays and the timing of Easter.

Reflecting continued shortages of candidates, fee rates remained at high levels and slightly above the prior year. Salary levels also remained strong. However, salary offers have reduced compared to 2022 and early 2023. These lower offers combined with lower candidate confidence led to continued high levels of offers being rejected by candidates, either through employer buybacks or unwillingness to risk the move for the size of incentive on offer.

**Regional Review**

**Q1 Gross Profit -12.8%**

*Negative foreign exchange impact of 3.6 ppts*

I will now present a regional review.

Group gross profit declined 12.8% in constant currencies against Q1 2023. The slowdown we saw at the end of Q4 2023 continued into Q1, with a deterioration particularly within continental Europe.

Trading conditions in Asia, the UK, and the US, saw no improvement, with low levels of client and candidate confidence continuing to delay time to hire, particularly in permanent recruitment. Foreign exchange had a negative impact on our results, decreasing our reported gross profit growth rate by 3.6 percentage points or £9.4 million.

**EMEA**

*Tougher conditions seen in 2023 continued into Q1 2024*

In our largest region, Europe, Middle East and Africa, which represented 56% of the Group, we declined 12.7% on Q1 2023. Q1 2023 was a tough comparator. It was a record quarter

for Germany, Spain, Belgium, and Turkey. The tougher conditions we saw at the end of 2023 continued into Q1 2024.

Reflecting this uncertainty, temporary recruitment was more resilient, down 9% compared to permanent recruitment, which was down 15%.

France, the group's largest market, which represented 14% of the Group, declined 16% against a strong comparator, with similar performances in both Michael Page and Page Personnel.

Germany, which represented 13% of the Group, declined by 16% in Q1, with tougher conditions in permanent recruitment, down 23%, while our technology-focused interim business was more resilient, down 8%.

Elsewhere in the region, the tougher conditions we experienced in Q4 2023 continued into Q1 2024, with the majority of countries declining year-on-year. In line with the tougher trading conditions, we reduced our fee earner headcount by 46 in Q1.

**The Americas**

*Continued tough market conditions in the US*

The Americas, which represented 17% of the Group, declined by 5.5%. North America was down 15% with the US declining 15%. The conditions we saw at the end of 2023 continued into Q1, with uncertainty around market conditions affecting both candidate and client confidence, particularly within accounting and financial services.

In Latin America, excluding Argentina, as hyperinflation following the recent election has distorted the growth rate, gross profit was down 4%. Mexico, our largest country in the region, was down 12% compared to a decline of 6% in Q4. Brazil was up 10%. The remaining countries declined 6% collectively. Across the region, fee earner headcount increased by 37.

**Asia Pacific**

*No recovery seen in Greater China*

In Asia-Pacific, which represented 15% of the Group, Q1 gross profit declined 15.7% on Q1 2023. In Asia, which represented 12% of the Group, we declined by 11% due mainly to tough conditions in Greater China. In Greater China, which represented 4% of the Group, we declined by 15%. Mainland China was down 19% and Hong Kong was down 12% in the quarter. The reduction in gross profit was due largely to a further reduction in fee earner headcount of around 30 in Q1.

Southeast Asia declined by 3% against Q1 2023, with Singapore returning to growth. India, which represented 15% of Asia-Pacific, delivered a record Q1, up 13%. We now have over 220 fee earners in India, which by headcount is now our largest market in Asia-Pacific.

Elsewhere, Japan declined 26% against Q1 2023, its record quarter, with reduced levels of candidate and client confidence impacting the business. Australia was down 32%, with tough conditions in all states. Our fee earner headcount decreased by 65 in the quarter, mainly in Australia and Greater China.

**UK**

*Temporary recruitment more resilient than permanent*

In the UK, which represented 12% of the Group, gross profit declined 19.2%. Reflecting the uncertain market conditions, clients sought more flexible options and as such, temporary recruitment, which was down 12%, was more resilient than permanent recruitment, down 22%. We continued to see clients deferring hiring decisions, and candidates cautious about accepting offers. In line with the more challenging trading conditions, our fee earner headcount reduced by 26 in Q1 and is now 726, 17% lower than Q1 2023.

**Summary**

*Challenging conditions continued in Q1 2024*

I will now provide a summary of our results.

Group gross profit declined 12.8% in constant currencies against Q1 2023. The slowdown we saw at the end of Q4 2023 continued into Q1, the deterioration particularly within continental Europe.

Trading conditions in Asia, the UK, and the US, saw no improvement, with low levels of candidate and client confidence. We exited the quarter in March down 18% on 2023, albeit this was against a tough comparator, was impacted by the reduced number of working days in March and the timing of Easter. Reflecting the market uncertainty, temporary recruitment was more resilient than permanent. In line with these conditions, we reduced our fee earner headcount by 100 or 1.7%. As a result of this reduction in headcount, productivity was up 1% compared to Q1 2023 despite the tough macroeconomic conditions.

Based on our current outlook, we intend to hold fee earner headcount broadly at existing levels to ensure we are well-placed to take advantage of opportunities as sentiment and confidence improve. Activity levels remained good, and we continue to experience acute shortages of highly skilled candidates in nearly all our markets, which were supportive of continued high-fee rates.

Nick and I will now be happy to take any questions you may have.

## Q&A

**Andy Grobler (BNP Paribas Exane):** Hi, good morning. Just a couple from me, if I may. As you described markets, they all sound pretty challenging at this point. Are there any areas where you are seeing a sign of inflection, either in terms of confidence or activity levels?

And then secondly, and a bit more specifically on Australia where the declines were pretty steep; you said that was across the board, what more specific are you seeing within the Australian market to make it so tough at this point? Thanks very much.

**Nick Kirk:** Okay, I will take those. Thanks, Andy. So in terms of inflection, not really, no. I think that we had mentioned, both on the Q4 statement and the prelims, we were talking about this potential opportunity whereby candidates, certainly in management leadership roles, would come back after Christmas, would have a January salary review, a January bonus, and then maybe start to come back onto the market in February, and we start to see that coming through in March. That really did not happen. I think that the bigger factor, as it

turns out, is just overall sentiment and the lack of confidence at the moment, and that is still weighing very heavily on people's minds.

So, no, I am not really in a position to call any particular green shoots in the US or UK or China or any of the markets that have been subdued, for a bit longer. And clearly Europe has declined, albeit that Europe I think is not getting any worse. It looks tough because of the comps which, as Kelvin mentioned, were against a record quarter for EMEA this time last year, but actually in terms of the trading conditions themselves, it has got more difficult. It is not getting any more difficult. However, that is probably about all I can say right now. And I guess we are hopeful that we can start to see some more green shoots as we go into Q2, or some initial green shoots.

As regards Australia, it has particularly tough down there. I mean perm processes are taking longer. We have got clients that are less decisive than they were, requiring higher levels of sign-off internally to make an offer. PageExecutive actually did pretty well in Q1, so that bucked the trend. And that bucked the trend probably more so because, as we have mentioned previously, these very senior leadership roles, they have to be filled.

But what we are tending to find is that internal recruitment teams are being quite heavily pushed within our clients to try and fill the roles themselves. Very much so the more junior roles, so PP-level, more junior MP-level roles. These TA teams are under a lot of pressure to not go out to consultancies. So clients are trying to fill the roles themselves as a first approach.

I think probably as well, the resources sector's got a bit more difficult over the last six months so that it had an impact. And then finally, I mean technology, which is a good share of our market down there, that is also slowed from where it was 12 months ago, where Australia was actually still growing for us. So I mean, Australia is pretty tough right now for all the reasons I have just mentioned.

**Andy Grobler:** And, Nick, can I just follow up on that; insourcing or, at least, the internal recruitment teams in those roles? Is that just an Australian thing, or is that something you are seeing pretty much everywhere?

**Nick Kirk:** Well, in my phone round of all of the heads of the regions, it came up in conversations in the UK and the US as well, where we are having conversations where the clients are more cost-conscious. As a result, they are trying to do it themselves. And then when that does not work, they come out to us.

Now how that helps us is that often they do try for themselves, are not successful, and then when they come out to us, it helps us maintain a higher fee rate because obviously, they are coming more as a distressed purchase at that point. However, at the lower ends where there is volume of candidates available, so that Page Personnel end and the junior end of Michael Page, they are more likely to see success.

**Andy Grobler:** Okay, great. Thank you very much.

**Afonso Osorio (Barclays):** Hi, it has Afonso here. I just have two, please. The first one is on your headcount plans of essentially no further cuts for the rest of the year. In your internal budgeting plans, are you then positioning yourselves for recovery in the second half

of this year? I would assume that if that is not the case, then operating profit will take a hit, given the stable headcount. Is that a fair assumption, and if so, how significant would that be?

And then the second question is around the pay-to-move offers. You mentioned previously that that was around 5% to 10% in Q4. Is that still the case today? And if so, would you need to see an uplift here to improve the final interview to accept the job offer conversion rates? Those are my two questions. Thank you.

**Nick Kirk:** Okay, thanks, Afonso. What I will do is I will take the last question first, and I will give you a view on the headcount. And then perhaps Kelvin can make some comment around the potential impact on profit, if indeed he can.

So the 5% to 10%, that has not really changed, no. I think that that is broadly where the market is settling, and particularly in a more cost-conscious environment where sentiment is low.

For a lot of candidates who are committed to moving, who have made the decision that their career is best served in a different organization, or who have seen an opportunity or an organization or a line manager that they would rather work for, 5% to 7% is enough to get them over the line. I guess what we are still seeing though is then for certain candidates, they go back to resign with an increase of say 7%, 8%, and it has easier for their current employer to buy them back than it would be if the offer was at 15% or 17% increase. However, I do sense that the market is narrowing in terms of candidate expectations and what clients will offer.

So in terms of any recovery, when it comes, I do think that you will probably find that the clients will nudge up a little bit because they will be looking at their order books and thinking, 'We need that talent in order to deliver against our commitments, in order for us to grow as an organization.' And it does get to a point where, whilst cash is king for most candidates, it is only one part of an overall cocktail when a candidate is looking to make a move. And I think that you will find that candidates will just nudge down a little bit and they will meet. So that is the direction I think it will go in.

As regards headcount, I mean just to be clear, I mean I think you probably paraphrased something that we did not say in the statement. You said that we will hold headcount for the rest of the year. Based on our current outlook, we are saying that our headcount is broadly in the right place. However, clearly if the outlook were to change significantly in three months' time, in either direction, then we would do something different.

So what we are saying is right now, if conditions remain the same, then we feel our head count is in the right place. And if we were to cut any further, we would be cutting into fee earners that are exactly the type of people that we want on board, in our organization, when a recovery starts to occur.

When that recovery is, I mean there was a lot of data over the last couple of weeks which probably pushed expectations back a little bit; in terms of the NFP data coming out the US, the CPI data coming out of the US. So that was disappointing to hear.

However, at the same time, there is just a point where an organization like ours moves very quickly when the recovery comes. And we have busy consultants at the moment that, with the same amount of activity, would actually be a lot more productive with just a bit more

confidence in the market. So if we did not have those fears we just would not be working the jobs, and the jobs are there at the moment. So I think for us this is a point at which we have to hold our nerve.

**Kelvin Stagg:** Yes, I mean, I can add a little bit. I think our monthly cost base is currently running in the high £60 millions, say just underneath the £70-million mark.

On the basis that the revenue line stays broadly where it is in terms of absolute numbers, it will therefore squeeze into that if things slow down, and obviously drop through quite highly if things pick up.

In our internal forecasts, we are not forecasting a big recovery in the second half. The comps get much easier from about July and therefore, actually, the growth rates will improve. However, in absolute terms, we are not forecasting a big bounce back in the second half.

**Afonso Osorio:** Thanks very much. Very clear.

**Nick Kirk:** Thanks, Alfonso.

**Karl Green (RBC):** Yes, thanks very much. Kelvin, just following off on what you said about the monthly cost base there, you beat me to it on one of my questions. I just wondered if there were any other levers you are going to be able to pull as the year goes by on the non-headcount side of things.

I mean, obviously you are going to see the benefits of the cost rationalizations coming through this year. Running at high-£60s million monthly at the moment, how should we think about that progressing over the balance of the year, irrespective of what happens to fee trends?

**Kelvin Stagg:** I mean, about 80% of our cost base is headcount-related. So the vast majority sits in there. About just under 10% of our cost base is property. We consolidated three offices in London into the office I am in today on the Strand. That actually brought our London square footage down from 60,000 square foot to 40,000 square foot. So there was about £1 million worth of saving that came off the back of that consolidation. We have got some more to do this year, not huge amounts, but that hopefully will slightly bring down the property number as we go through the year.

We also, as you might have heard being mentioned as I went through the presentation, have closed our UK Shared Service Center. We actually moved the roles, not the people but the roles, into Barcelona for the UK. And we were supporting the US out of the UK. That has actually been moved into Buenos Aires. So it will incrementally pick up cost savings this year of about £1.8 million, and next year will probably be nearer £2.5 million as a result of that saving.

Outside of that we have about 10% which is software, and actually software inflation is running relatively high at the moment. I think all the software companies are trying to push their costs onto their clients, and so that is probably going to offset some of those other savings. So we will obviously be looking at other areas that we can make savings, and in certain cases looking at software and technology equipment, bring in.

We talked to you guys before about the job advert generator, the piece of AI that we have now deployed pretty much across the group, that is able to write job ads in a matter of

minutes compared to our consultants that would probably take 30 to 40 minutes to write one. So we think that that is going to help in productivity. We are looking at things that are able to reformat and summarize CVs. We also have a virtual interview which is able to write a summary of an interview and allow you to upload it automatically straight into our system.

So I think there are things that we could employ that make our consultants more productive, and in certain cases would allow us to reduce our admin spend. However, we will try and announce them as we are certain of them, as we go through the year.

**Karl Green:** Perfect. Thanks very much. And just an unrelated small technical query, just in terms of the hyperinflation in Argentina. Is that likely to have a meaningful profit, as in EBIT, impact on either the first or the second halves this year, just in terms of the accounting for that?

**Kelvin Stagg:** No. No. I mean where it takes any effect is really in terms of the constant currency prior-year adjustments because you are essentially not devaluing the currency because it has a constant currency, but you are including the effect of hyperinflation on the domestic currency.

So we will exclude it where we are doing constant currency comparisons. However, outside of that, actually the inflation is pretty much offset by the devaluation. If anything, it makes our Shared Service Center slightly cheaper.

**Karl Green:** Perfect. Thanks, guys.

**Rory McKenzie (UBS):** Morning. Thanks for squeezing me in. My first question was just back on the headcount. Why this level of headcount? I think the world, the average productivity, in terms of gross profit per head is still up over this cycle. Of course in real volume productivity terms the businesses is well down. So how are you assessing the spare capacity in the business or what you want to keep in place for recovery?

And I guess overall the Group headcount is a total number, so can you give us more detail on the areas within that that are still rising or falling, I guess?

**Nick Kirk:** So I mean you are right to ask the question in the sense of it being it has definitely an art, not a science. I think what you are looking at is an experienced leadership team that speak regularly, who have been through many cycles in their time with Page, who are trying to look at the shape of the trough, to maybe use your words, Rory, from your paper, and then the recovery coming out the other side.

And we just made the call that we believe now, that if we start to look across the people we have in our business, the easy decisions to make around junior consultants, inexperienced consultants, underperforming consultants, that work has been done, and that is been done over a five-quarter period. And so we have been consistently bringing it down, at around about 250 per quarter through last year, 100 in the quarter just gone. However, there is just a point at which you have to stop.

There is a point at which, based on your current outlook and your views around recovery and whatever shape that may come, where it may come, or whatever velocity it may come, that the consultants you have are busy. And therefore, if you have less of them, that is work that just will not get done.

And in a market that for us is predominantly perm, as you know, it has very difficult to forecast at the moment, very difficult to know, when it gets to the end of the process, what the offer is going to be. Is it going to be enough? What is the emotion of the candidate going to be? Is it going to get them over the line? What is the reaction of their current employer going to be in terms of buyback? Therefore, the ability to predict a deal that is going to close I think is really, really difficult.

So, therefore, to mitigate against that unpredictability, what we try to do is make sure that we have more in the pipeline. And if you have less consultants, you are just going to be working on less activity, less jobs, less first interviews, less second interviews, which I think would just have a net result in us making less revenue.

So I mean clearly we are looking at that productivity figure and trying to hold at a level that we are comfortable with. We are still looking at headcount country by country. So if there was a particular movement in a country either way, then we would react to that.

However, where we have got to at the moment, there have not been any real surprises in Q1. I mean, we have come into the quarter pretty much predicting that the first half of this year would be difficult. And so far, it has been. So I think we are in the right place. And therefore, as I say, there is just a call that you have to make as a leader in a business, which is, 'This is where we want to hold because we believe that the next significant shift will be a move towards recovery.'

I cannot tell you exactly when that is. Clearly, if I was wrong and the market got worse, then we would have to react. However, the statement we made this morning was very much based on what we know today. And based on what we know today, our headcount, I believe, is in the right position.

**Rory McKenzie:** No, that is helpful detail. Thank you.

**Nick Kirk:** Thanks, Rory.

**Kelvin Stagg:** Thank you. So as there are no further questions, I thank you all for joining us this morning. Our next update to the market will be our Q2 2024 Trading Update on 10 July 2024. Thank you all.

[END OF TRANSCRIPT]