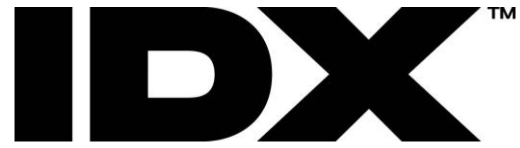

PageGroup 2024 Half Year Results

Thursday, 8th August 2024

Headline Numbers

Kelvin Stagg

CFO, PageGroup

Good morning, everyone, and welcome to PageGroup's 2024 Interim Results Presentation. I am Kelvin Stagg, Chief Financial Officer, and on the call with me is Nick Kirk, Chief Executive Officer.

Headline

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.

Key financial highlights

Challenging market conditions across all regions in H1

The Group delivered gross profit of £444.1 million in the first half, down 12.4% in constant currencies. Due to the more challenging trading conditions in 2024, we delivered operating profit of £28.4 million, down from £63.9 million in H1 2023, with a conversion rate of 6.4% compared to 12.1%. Earnings per share decreased to 5.3p, from 13.6p in H1 2023, and we closed the first half in a strong financial position with net cash of £57.2 million. We are today announcing an increase in the interim dividend of 4.5% to 5.36p per share, or £16.8 million.

Financial Review

I will now take you through the Financial Review.

Group Operating Profit of £28.4m

Lower conversion rates across all regions

Looking at each of our regions and starting with the largest, EMEA, our conversion rate was 14.6%, down from 16.6% in the prior year. This was due to the tougher trading conditions and a very tough comparator period as a number of countries, including France, Germany, Belgium and Spain, all had records in H1 2023. Despite the challenging trading conditions, the region continued to have the Group's highest conversion rate. In the Americas, our conversion rate decreased by 1% to 5.7%, which reflected tough conditions in the US, with Latin America being more resilient. In Asia Pacific and the UK, while trading conversion was positive, after central cost allocations, both regions had a negative conversion rate.

Effective Tax Rate (ETR)

Effective tax rate increased to 39.5%

The tax charge for the first half was £10.9 million. This represented an effective tax rate of 39.5%, an increase from the 31.9% for H1 2023. This increase is due primarily to the impact of prior year adjustments in the first half, together with a higher forecast full-year effective tax rate due to reduced profits in lower tax jurisdictions such as Asia and the UK. For the full year, we expect our effective tax rate to be around 35%.

Robust balance sheet

Net cash of £57.2m

The most significant item in our balance sheet was trade and other receivables of £371.2 million, which decreased, due to weaker trading conditions, by £53.4 million versus June 2023. Net cash at the end of June was £57.2 million. Overall, net assets have decreased from £333.9 million in H1 2023 to £274 million in H1 2024.

Strong cash flow generation

Final 2023 dividend payment of £35.2m in June

This chart lays out the movements in our cash in the first half of 2024. Our H1 EBITDA inflow was £61.6 million, partially offset by a decrease in working capital of £12.4 million, due largely to timing differences on payment of our temporary payrolls, with month end falling on a weekend.

Tax and net interest payments were £7.1 million, and net capital expenditure was £7.4 million, down from £11.3 million in H1 2023. Payments made in relation to lease liabilities reduced cash by £20.7 million. £0.5 million was generated from employees exercising options, in line with H1 2023.

The Group also purchased £13.2 million worth of shares into the Employee Benefit Trust to satisfy future committed obligations under our Group share plans. We also paid out £35.2 million for the 2023 final dividend.

Overall, the impact of these cash flows decreased the Group's net cash position since year end by £32.9 million, to £57.2 million at the end of June.

Clear capital allocation strategy

£16.8m dividend to be paid in October

The Group operates a highly generative, cash generative business model with high levels of cash conversion. We have a clear capital allocation strategy with three defined uses of cash. The first and primary use is to satisfy the operational investment requirements of the Group, such as investments in technology, data and innovation, as well as hedging liabilities under the Group's employee share plans.

The second use of cash is for the payment of Ordinary Dividends, where it is the Group's policy to maintain these through a downturn, which we have done in all years, apart from the pandemic, and to increase them when conditions are more favourable.

Thirdly, and finally, any remaining surplus cash is distributed to shareholders by way of a supplementary return, either by share buyback or special dividend.

Today, we are announcing an interim dividend of 5.36p per share, a total of £16.8 million. This is an increase of 4.5% on the 2023 interim dividend of 5.13p per share. The interim dividend will be paid on the 11th October to shareholders on the register as at the 30th August.

I will now hand you over to Nick to take you through our strategic review.

Strategic Review

Nick Kirk

CEO, PageGroup

Our Strategic Goals

Thanks, Kelvin. We launched our strategy in September 2023 with three key strategic goals: delivering operating profit of £400 million, changing 1 million lives, and increasing our net promoter score to over 60.

Since we launched the strategy, market conditions have been challenging, but despite this, we continue to make progress on our strategic goals to position the Group for when the macro improves.

Against our social impact objective of changing 1 million lives, we performed well in the first half of 2024. In H1, we changed over 60,000 lives, meaning that, in total, we have changed over 560,000 since we set this target in 2020, putting us well on track to deliver against our strategic goal. Progress in this area is measured by the number of people whose lives we change by placing them into work as well as the number of people who access programmes we run that support traditionally underrepresented groups accessing employment.

We also made progress on our customer experience goal of achieving a client net promoter score of over 60, from our baseline of 52 in 2022. Our NPS increased to 56 in 2023, and in H1 2024 we have seen further improvement. For the 12 months to the end of June, our score increased to 59. This highlights our commitment to providing excellent service to our customers, further cementing our position as a benchmark of quality in our industry.

Embedding our Strategy

Our strategy prioritises delivering what we are famous for, building on our existing strengths and leveraging our established global platform. We have a clear focus on what we do best at a city and country level, growing our business in areas where we see the greatest future potential. To achieve our strategy, we have four pillars of growth: our core business, our technology business, Page Executive and Enterprise Solutions, which supports our strategic customers with their complex, global requirements.

We continue to maximise our core business under our Michael Page and Page Personnel brands, building on our previous investment strategy to strengthen our market leading position with a focus on profitable growth.

Our technology business is a scale play, enabling us to build a high-value, high-volume business in what, for us, is already a significant market.

Page Executive is a market gap play. We operate at salary levels above Michael Page, specialising in senior leadership search and recruitment as well as offering executive advisory services.

Enterprise Solutions is a partnership play as we build out our capabilities and breadth of offering to create long-term mutual value with our strategic customers.

I will now give you a brief update on the progress we have made within our four pillars of growth.

Our Strategic Pillars

Core and Technology

Within the core business, we are making progress with our strategy despite challenging market conditions. We continue to review our business operations and are actively reallocating resource into areas with more growth potential in order to maximise future performance. Our broad-based global platform provides multiple opportunities for accelerated growth as conditions improve.

As has been widely reported, the technology sector has been heavily impacted by tough macro factors over the past 18 months. Despite this, we saw some individual markets delivering growth, such as India, Latin America and Middle East and Africa. We also saw further diversification into non-permanent recruitment, which represented 38% of technology gross profit in H1, up from 27% in 2022.

Page Executive and Enterprise Solutions

In Page Executive, we delivered a strong first half, with gross profit growth of 6% on H1 2023. This was a record H1 performance for Page Executive globally, as well as in individual markets such as France, Germany, Italy, Mexico and Japan. We have a highly experienced and proven team of just over 300 fee earners in Page Executive, with an average tenure of 14 years.

Within Enterprise Solutions, which is our business focused on strategic customers, we have successfully transitioned from a regional to a global structure, aligning our leadership, sales and account management teams, as we seek to best serve our largest clients.

We have seen early successes with a number of our top 400 clients as we seek to work more closely with them by increasing our geographic footprint to include more brands, disciplines and locations.

Despite the underperformance of the overall recruitment outsourcing sector, we have seen encouraging growth in this area in H1. We remain focused on winning business that delivers conversion rates in line with our strategy. Outsourcing continues to play a significant role in responding to evolving client demands.

Summary

2024 outlook unchanged

I will now finish with a brief summary. We continue to see challenging market conditions across all regions in H1, and we experienced a softening in activity levels towards the end of the period, particularly in terms of new jobs and interviews. Permanent recruitment continued to be more impacted than temporary as clients sought more flexible options and permanent candidates remained reluctant to move jobs.

While we saw a slower end to H1, having taken action to reduce headcount throughout last year, our intention remains to hold fee earner headcount broadly at existing levels to ensure we are well placed to take advantage of opportunities when sentiment and confidence improve. We have a highly diversified and adaptable business model, a strong balance sheet, and our cost base is under continuous review.

We continue to see 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, and we continue to work with our partners to deploy AI and automation tools into our working environment.

Given these fundamental strengths, we believe we will continue to perform well despite the challenging environment, and we are confident in our ability to implement our strategy, driving the long-term profitability of the Group. At this stage of the year, the Board expects 2024 operating profit to be in the region of £60 million, in line with our previous guidance.

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

Q&A

Andy Grobler (BNP Paribas Exane): Hi, good morning. Three, if I may. Firstly, just on trading, have you seen any signs of inflection or at least change in client candidate behaviour in some of your bigger markets like the UK and France?

Secondly, profits fell into a loss in UK and Asia Pacific in H1. Are there areas across those regions or countries where you are making profits, and do you still think those areas are capable of getting to those 20% margins you want in the longer term?

And then thirdly, on tech, I know the markets are tough, but I wondered if there were any underlying structural changes to the areas of demand that you are seeing. So particularly some of those maybe lower end or legacy programming support roles, are those beginning to disappear as AI and technology continues to evolve? Thank you very much.

Nick Kirk: Thanks, Andy. I will take the first and the third question, and Kelvin can pick up the second one. In terms of trading, we gave an update to the market probably three, four weeks ago. If there had been anything extraordinary that had happened in the month of July, we would be calling it out. But July was broadly in line with our expectations, so there is really nothing to add on UK or France at this stage, other than what we said in the Q2 statement.

As regards technology, yes, I think you raise an interesting point. I think that that part of the market, around software development, definitely is being challenged by AI and perhaps the role of the human in some of the elements of those jobs. That is not really the area that we play in, though. We play more in senior level contracting leadership roles. And at the moment, sadly, we are not seeing really any inflection in the market there in terms of improvements really across the board. It remains tough. The earnings round from a lot of the tech companies recently was not great, and I would imagine that will continue to cast a bit of a shadow over the sector as a whole.

Kelvin Stagg: Picking up the second one, the UK and Asia Pacific, both regions were actually profitable at a trading profit level. We essentially task our businesses with making profits based on their own local profitability, but then we do have a fairly sizable amount of central costs that then get charged out afterwards between trading profit and operating profit. And it is that that has pushed the UK and APAC down into a loss-making position. The only business that was broadly breakeven would have been China in the first half. All of the other businesses across Asia, including the UK, were profitable. The size of that central allocation

has gone down a bit, but not anywhere near the 20% plus that the fee earner headcount has gone down. And so that is why you are seeing it being quite a sizable cost on those. As the profits restore back to historical levels, then the absolute amount becomes less, and you will see them move back into profits in the future. There is nothing in any of those businesses that says structurally, we cannot get back to 20% plus conversion rate.

Andy Grobler: Okay. Thank you.

Rory McKenzie (UBS): Good morning. Two questions please. Firstly, just on that point on profits, your fee earner headcount broadly flat from here, having reduced it, I think about 11% from the peak. Can you remind us what you have done on those indirect central costs in total over the past couple of years, just about how much savings you have pulled out and how lean that central cost base is now versus what it could be?

And then secondly, interesting stats on the customer NPS. I just think about how that actually works in a downturn. Even if the customers are not using you very much, do you still get the sense you are keeping and growing a good relationship? Is that something that gives you comfort, thinking about a recovery?

Nick Kirk: Thanks, Rory. I will take the net promoter score and then perhaps let Kelvin talk to the question on profits and costs. Yes, from our perspective, when we launched the strategy, we talked a lot about with the fact that we had built the strategy through three different lenses, the lenses of our shareholders, the lens of our people, and the lens of our customers. And we wanted all three of those objectives reflecting those core groups, if you like. And from a customer perspective, I think the sense of servicing customers is even more greatly enhanced when the markets are tough, because you really want to do a good job for them and take them through what are often challenging market conditions.

Because, from a client perspective, they are coming to us to have a role filled, they are coming to us because often they may have tried to do it for themselves, have not been able to, and they are coming to get some specialist advice. They are looking to access talent that they cannot do on their own. But over and above that, they want some expert knowledge, and they want that guidance, and they want some advice around what salary to offer to get the candidate over the line. And we have talked a lot about what the increases were that were in place, say, through 2021 and 2022, where a lot of clients were buying talent. So there was not much subtlety, there was not much art in the skill of landing a candidate.

I think when budgets are tighter, you then have to be more creative, you have to build a better narrative. And that is where a really good recruitment consultant can sit alongside you and support you to help you build out that story as to why that candidate should accept an offer that may not be in line with what a colleague may have moved for 18 months, two years ago, and has a broader sense of the employer value proposition, and can help bring that to life with the candidate and secure the talent for them.

So in a way, I am probably not surprised by the net promoter score going up, because I have a sense that, in a market where talent shortages are such an extreme as they are now, clients that do come to us really are relying on our expertise, and they value that. And that comes through in the survey results.

Kelvin Stagg: Yes, talking to the cost savings, so we announced a restructuring last year with a net cost last year of about £3 million. That delivered £20 million of run rate savings in the current year. We also went through the closure of our UK shared service centre at the end of last year and through into early April this year. That has a run rate saving of just under £5 million, albeit there were £2 million of costs related to that in the first half of this year. So £23 million in total in the current year. We are also currently just going through the process of closing our Singapore shared service centre and moving that into Kuala Lumpur, which we expect to have a further saving of around £3 million from next year.

So there are quite a number of savings going through, albeit our wage inflation costs for our own people cost us just over £12 million this year, and we would have had inflation in a number of other items, particularly software licences and the like.

Rory McKenzie: That is helpful. Thank you both very much.

Kean Marden (Jefferies): Morning, all. I have got a few questions on Page Exec and then a little bit on AI, if I can. Forgive me if I did not catch all of the numbers. Did you mention that Page Exec had about 300 headcount in the first half? Which I think is pretty similar to the numbers that you mentioned at the Capital Markets Day for fiscal 2023. And did you mention a record first half net fee number as well? So I am just wondering, if that is up, can you give us an idea of what sort of base that you are starting at with an eye, obviously, on your medium-term targets to get that business to about £200 million worth of revenue?

And then a few questions on AI and Alex Bates and what his team is doing at the moment. Well, I appreciate Nick, just a quick update on what you found that works and what you have cut. Secondly, whether your data set is reliable enough to support your AI initiatives or whether you need some further work here. And then thirdly, is current low Group profitability impeding the change of momentum that you are looking to put through in that area? Thanks.

Nick Kirk: Okay, I will give that a go, Kean. Right, so Page Exec first. Yes, you heard right, so 300 fee earners. And you are also right that that was the headcount number that we were talking about in our Capital Markets Day. We consciously have held headcount in that area because we believe it is a really strong opportunity for us. Therefore, as a result, where we have seen fee earners' headcount declining in our core business or perhaps in technology, we have not made that call in Page Executive, largely because, as I said in the presentation, you have got an average tenure of 14 years. These are people who really know what they are doing and, frankly, are the people that have networks that can enable them to make money, even in the toughest of markets. And you have seen that, which leads into the second question, which is, yes, we did have a record in H1, and we had a record based on holding headcount. So as you can probably tell from that, productivity's improved slightly in that area whilst we have held headcount.

So we are really excited about the Page Exec business. We talked about in September last year, the market gap. And I think approximately 12 months on from there, the one thing that we probably know for sure is that not only does it exist, but it is probably a little bit bigger than we thought it was. So in terms of that business, we are very optimistic that if we can see these kind of results in this kind of macro, the opportunity that we have when the macro starts to improve. So yes, early days but a good start. But I think we will clearly need some macro improvement to get on track to deliver against the objective that we set out on

the Capital Markets Day. We cannot do that based on seven years of these kind of conditions. But with the right conditions, I feel very comfortable that we can deliver on that Page Exec plan.

As regards the AI side, clearly, when you are looking at the cost base of the business and investment, you have to be sensitive in all areas of your organisation around spend. So it is not as if we can career off and double budget in areas just because there is a lot of chat about it and it is very exciting. That said, we have been very careful not to cut budgets across that area because we do feel that there is a strong opportunity for us, and, as we have talked about before, a chance to really remove some of the heavy lifting for our consultants.

The piece of work that we did when we were building Customer Connect was we did a lot of work on our data set. And if our head of AI was in the room now, he would be talking a lot about that because he could not do any of the stuff that he is currently doing if we did not have a global data set and we had not done all of the work to bring everything together and really make sure that we are in a position where the data that we were working from was already in really good shape, our own data, because that is the power. Clearly, going out and pulling things from external sources, anybody can do that. And that, combined with your own data set, with a company with our history and with our footprint and with our scale, is what makes it really, really powerful.

So yes, that work was done during the period with Customer Connect. It was not the sexy part of the investment, but it was a crucial part of the investment. And it really does allow us now to do some of the things that we are doing.

The other advantage of Customer Connect, when you start looking at AI, is the sense that if you are innovating, and you have new products, and you want to drop them into the ecosystem that we have, i.e. Customer Connect, we can just do it over one weekend. Whereas with our old systems, because we had 30-odd instances of it, it was 30 weekends of closing down an instance, putting in the innovation, and then next weekend a different one, next weekend a different one. And in a market and with a world where the technology is moving so quickly, you cannot be launching new innovation and it takes you six months to roll it out. You need to do it over a weekend, get it into the markets that you want to get it into and have everybody using it come the Monday. And that is really the advantage that we now have with Customer Connect.

So that alignment between doing the data work, launching Customer Connect, and now being in a world where we can innovate but deploy quickly, I think is what helps us to win.

Kean Marden: Good stuff. Thank you. Just going back to Page, forgive me if I put you on the spot, is net fees in Page Exec for fiscal 2024 likely to be £80-90 million? Is that the right interpretation?

Kelvin Stagg: Probably slightly less than that, Kean. I suspect £70-75 million.

Kean Marden: £70-75 million. Okay, so still plenty of runway to get to that £200 million over the medium term.

Kelvin Stagg: Yes.

Kean Marden: Great stuff. Wonderful. Thanks so much for your time and good luck over the next few years, guys.

Nick Kirk: Thank you. Cheers, Kean. You too.

Kelvin Stagg: You too.

Alfonso Osorio (Barclays): Hello. Good morning guys. I just have a two or three questions for you at this point. Kelvin, a few weeks ago, in the Q2 presentation, you provided a very good table on the jobs created in the first half and the number of interviews as well. And also, you had a comment on the reduction in the number of jobs acquired in June, which eventually would have an impact in Q3. I am sure you are not providing run rates for July, etc., but can you comment on this development into July and August, and do you expect further negative impact into Q4? And the reason I ask for this is just because as clients, as we approach the end-of-the-year performance reviews from December to essentially February, March next year, just trying to understand the mechanics on growth, job creation and the interviews and general thoughts there, because in terms of growth, probably we can get weak until end of Q1, Q2 next year. So that is the rationale for that question.

Then number two, I think your EMEA performance is quite resilient given where we are in the cycle. So just can you walk us through the different growth dynamics by country in EMEA? France, according to your peers, have said recently, France faces pretty much a tough market there. So just the winners and the losers within EMEA, that would be great to know.

And then finally in the US, it is important for you guys as well. So just wondering if you see any green shoots in the second half, or, to my previous first question, if it is just a function of waiting for early 2025 for any signs of a recovery. Thank you.

Kelvin Stagg: No worries. As I think you said, I am not going to get into number of jobs and interview statistics for every month as we go forward. I think what we saw was slightly unusually a drop in in May and June, off the back of which we moved consensus down to the £60 million that we are holding at today. As it says in the statement, we are still comfortable with that £60 million. So you can assume that things were okay in July. They certainly did not get any worse. Otherwise we would have to move that number down, and we are not. But activity naturally, as you go through into the late July and August summer months, is lower than it would be elsewhere. So, in the same way, if I gave you the stats, they might mislead. So you can assume that things are largely okay.

With regards to Europe, I would probably say, if I was looking at a country that was a bit softer than the others, it is probably Italy, for us. We do not have a temporary business in Italy, so that will probably be reflected in that performance. And probably the strongest is Spain. I do not think, really, France has become better or worse over the recent period. I think the political uncertainty there has, to a certain extent, now fallen away. And I would not pick out the other countries, whether that is Germany, Belgium or Holland, all of which have fairly sizeable temp businesses, as being really outside of the pack.

Nick Kirk: I can say the US, if you like. The US, I think if we were to chat about that market historically, we have often referred to it as being a very transactional market. That said, a transactional market with high fees and high salaries, some of the highest in the group. But actually, in terms of the relationship between us and our clients, it tends to be, as I say, pretty transactional, pretty arm's length. The clients do not really want to meet us. They are very happy to take a candidate that we would proactively send across to them, interview them, do not want to see a shortlist and hire them. That would have historically been the

type of market conditions we have seen in the US. As things have become more challenging and sentiment has dropped in the US, what we have seen is that the US has started to become a lot more like a market that we would recognise in Europe, where the client does want to engage up front, they do want to see a short list, they do want to have options, they want to have choice, they want to have a level of relationship and consultancy, which slows the process as a result. But at the same time, the clients are still recruiting, but they are setting a very high bar to hire. So if the candidate does not meet that bar, then they are reverting back to the start of the process and asking us to send over a new shortlist.

So I am not surprised by that. As a set of dynamics, it is very much in relation to a market that seems to be on the cusp of where it is heading at the moment, and there is a lot of uncertainty across the piece as a result.

Alfonso Osorio: Okay, that is very clear. Thank you very much.

Remi Grenu (Morgan Stanley): Good morning, and thanks for taking my question. Just one last one on my side. You talked about the momentum in technology and Executive. So last piece of the puzzle, if you can maybe discuss a little bit what you are seeing in terms of momentum in the short term with your enterprise client, and if there is anything to call in terms of divergence versus the performance of the rest of the group, or any discussion or any difference in trend with these specific clients. Thanks.

Nick Kirk: Yes, sure. Within the statement, I talked a little bit about our performance in Enterprise Solutions, and I would probably break that down into two areas. The key two areas would be our global account management, so our top 400 clients that our Enterprise Solutions teams are working more closely with, and then our outsourcing business that you will be aware of already, [inaudible] in the presentation that probably counter to the sector as a whole. We were very pleased with the results of our outsourcing business. It grew during H1. It is relatively small in comparison to some of the competitors, so I think that is important to recognise yet. We have made a very clear position with our outsourcing business that we do not want to go out and win vanity projects. It is not all about the top line. We are very committed to only bidding for business that we believe can deliver a conversion rate in line with our strategy, which, therefore, limits some of the accounts that we would go after. But we are happy with that. That is important to us to make sure that we are growing an outsourcing business, as I say, that has profit levels that are in line with our strategy as a whole.

And as regards our global accounts, I think it is fair to say that SMEs, probably for us, have been more resilient than our largest clients. Our largest clients tend to be very sensitive to movements in the markets. They have exposure to multiple markets, multiple sectors, and when they are in a position whereby they are not growing, they will often lean into resource of their own or use their own employer brand to try and recruit directly. As a result of that, when markets are tougher, the largest clients do tend to try to do it for themselves and are able to do it with a level of success. Maybe not for all roles, but for certainly some of the more standard roles, that is what they will tend to do, whereas an SME probably cannot do that in a talent-short market because they do not have the employer brand, and, therefore, they still need to partner with someone like us, and therefore that business area is more resilient.

Remi Grenu: Okay, understood. Thanks.

Kelvin Stagg: Thank you. As there are no more questions, thank you for joining us this morning. Our next update to the market will be our Q3 trading update on 14th October. Thank you all.

[END OF TRANSCRIPT]