Page Group
Q3 Trading Update

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Overall Q3 Trading Update

Kelvin Stagg

CFO, Page Group

Welcome

Good morning everyone, and welcome to the Page Group 2024 Third-Quarter Trading Update. I'm Kelvin Stagg, Chief Financial Officer, and on the call with me is Nick Kirk, Chief Executive Officer.

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

Fee earner performance

Q3 Gross Profit

The group delivered gross profit of £201.4 million in the quarter, a decline of 13.5% in constant currencies. We continue to see challenging market conditions in the majority of the group's markets, with a further softening in Europe, and we exited in September, down 16% on 2023.

Fee Earner Headcount

Our fee earner headcount reduced by 98, or 1.8% during the quarter. We continue to review fee earner headcount reallocating resource in line with our strategy into the areas of the business where we see the most significant long-term structural opportunities. Overall, our intention remains to hold fee earner broadly at existing levels to ensure you're well placed to take advantage of opportunities when market conditions improve. Overall, the group ended the quarter with 5,500 fee earners, and a total headcount of 7,442. Due to the tough macroeconomic conditions and our decision to hold onto fee earner headcount, gross profit per fee earner, our measure of productivity, was down 4% compared to Q3 2023.

Our balance sheet remains strong with net cash at the end of September of around £93 million. This compares to £57 million at the end of Q2, and it's before the recent interim dividend payment paid on the 11th of October totalling £16.8 million.

Temporary versus Permanent recruitment comparison

I'll now give a brief financial review. Reflecting the uncertain macroeconomic conditions, temporary recruitment continue to outperform permanent as clients sought more flexible options. Temporary recruitment decreased by 8.6% against Q3 2023, with permanent down 15.3%. Reflecting this, our ratio of permanent -temporary gross profit was £71.29. In Michael Page, permanent recruitment represented 80% of gross profit, while in Page Personnel it was less at 44%. Michael Page was the stronger performing brand, down 10.5%, compared to a decline of 21.3% in Page Personnel. A portion of the decline in permanent recruitment in Page Personnel was due to the transition of teams in certain markets to more profitable roles within Michael Page.

We reduced our fee earner headcount by 98, or 1.8%, during Q3, with reductions mainly in Europe. We continue to review fee earner headcount at a country level to ensure it remains appropriate to market conditions. Our intention is to hold fee earner headcount broadly at existing levels. And on operations headcount decreased by 36 in Q3. In total, our head count is now 698, or 8.6% lower than in Q3 2023. Due to the tough macroeconomic conditions and our decision to hold on to fee earner headcount, gross profit per fee earner decreased 4% compared to Q3 2023. The number of interviews and jobs per fee earner was relatively stable in Q3 after adjusting for the seasonally quieter summer months.

Reflecting continued shortages of candidates, fee rates remained at high levels and slightly above the prior year. Salary levels also remain strong. Salary offers, however, have reduced compared to 2022 and early 2023. These lower offers combined with lower candidate confidence has led to continued high levels of offers being rejected by candidates, either through employer buybacks or unwillingness to move - sorry, unwillingness to risk the move for the size of incentive on offer. Conversion of interviews to accepted offers remains the most significant area of challenge as ongoing market uncertainty continues to impact candidates and client confidence negatively.

Performance Review by Region

I will now present a regional review. Group gross profit declined 13.5% in constant currencies against Q3 2023. And we saw tough market conditions in the majority of the group's markets with no sign of improvement. Foreign exchange had a negative impact on our results, decreasing our reported gross profit growth rate by 3.2% points, or £8 million.

EMEA Region Performance

In our largest region, Europe, Middle East, and Africa, which represented 53% of the group, we declined 15.1% with market conditions worsening during the quarter. Michael Page was the stronger-performing brand, down 12%, compared to a decline of 21% in Page Personnel. Within EMEA, temporary recruitment represented 36% of total gross profit, a higher proportion than the rest of the group. Temporary recruitment, down 12%, was more resilient than permanent, down 16%. While temporary was more resilient than permanent, temporary placements were not as high as anticipated in September after the quieter summer months.

Germany, the group's largest market in Q3, which represented 13% of the group, declined by 19%. We declined across all brands, albeit our technology focused interim business was the most resilient. France, which represented 13% of the group, declined 16%. We saw a more resilient performance in temporary recruitment, which is indicative of the current uncertainty of the market. Tough market conditions continued throughout the rest of Europe. We declined in all major markets. In the Middle East and Africa, gross profit was down 3%. In line with the tougher trading conditions, we reduced our fee earner headcount by 49 in Q3, mainly in Germany and France.

Americas Region Performance

Excluding Argentina due to the hyperinflation, the Americas, which represented 18% of the group, declined by 10.3% against Q3 2023. North America was down 13%, with the US declining 11%. The conditions we saw in Q2 continued into Q3 with low levels of candidate and client confidence impacting conversion of interviews to accepted offers. In Latin America, excluding Argentina, gross profit was down 7%. Mexico, our largest country in the region, was down 15%, due to its high degree of reliance on the US. However, Brazil was up 7%, with strong growth, particularly in temporary recruitment. The remaining countries declined

8% collectively. Across the region, fee earner headcount increased by 14 as we held onto our platform in the US.

Asia-Pacific Region Performance

In Asia-Pacific, which represented 16% of the group, Q3 gross profit declined 16.8% with ongoing tough market conditions across most of the region. Southeast Asia declined by 9% against Q3 2023 with Singapore down 10%. In greater China, which represented 4% of the group, we saw no signs of improvement and declined 25%. Mainland China was down 24% and Hong Kong was down 23%. Japan and India declined 5% and 3% respectively, albeit both had tough comparisons. Australia declined 31% with ongoing challenging conditions in all states. Our fee earner headcount decreased by 29 in the quarter.

UK Performance

In the UK, which represented 13% of the group, gross profit declined 13.5%, with tough conditions. In both Michael Page and Page Personnel. We continue to see clients deferring hiring decisions and candidates cautious about accepting offers, reflective of market conditions, temporary recruitment with more resilience than permanent. Fee earner headcount reduced by 34 in Q3 to 698.

Summary of Q3 Results

I'll now provide a summary of our results. We continue to see challenging market conditions across all regions in Q3 with no signs of improvement and softer activity and trading in a number of European countries, including France and Germany. Conversion of interviews to accepted offers remains the most significant challenge due to subdued levels of client and candidate confidence. Permanent recruitment continue to be impacted more than temporary as clients sought more flexible options.

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 expect 2024 full year operating profits to be broadly in line with current market consensus of £58 million. Nick and I will now be happy to take any questions you may have.

Q&A

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. If you would like to withdraw your question, please press star two. Our first question comes from Rory McKenzie at UBS. Please go ahead.

Rory McKenzie (UBS): Good morning, it is Rory here. Just two questions on fee rates and wage inflation. Firstly, can you say what the year-over-year gross profit benefit was of rising fee rates and wages, please. And I guess that's been fading year over year across the past 12 months. And then secondly, you talk of course about the relatively weak salary offer rates, which are clearly impacting the conversion that you are seeing. There are some split views in the press about whether candidates need to be accepting of lower rates or clients need to up what they're offering. Can you say what you are hearing from the clients and the candidates, once that conversion doesn't happen? Is the client then looking for a higher paid job offer or are they just not going ahead with the move they're looking for? Just trying to work out what could change next to break down this kind of deadlock. Thank you.

Nicholas Kirk: Thanks Rory. Well, maybe I'll look at the second question and then I'll pass to Kelvin to comment on the first. So yeah, as we go through the process, so as you know, right about 70% of our business is permanent. We're talking about white collar professionals, they're committed to a move, so this isn't just window shopping. They go through a process, maybe first interview, virtual, then two interviews, often face-to-face. And typically what's happening is that the offer comes to them, and it might be an increase of, say 5% or 7%. And particularly this time of year that they're looking forward and thinking, well, I'm going to get some kind of an increase in January and also maybe some form of a bonus in January, is there anything more that the client can do just to kind of tip me over the line at this stage?

And I just think a lot of organisations were burnt through the period of 2021 and 2022 where they had some real kind of instability within their teams because of people on very, very different packages. People had been hired through that period coming in on 15%, 20% more than their peer group, which then cost the organisation a lot of money to balance things out. And I think line managers now are just a lot more sensitive to that equity within the team and they don't want to disturb that.

In terms of then what happens is that typically, well, multiple things could happen. The candidate either just turns it down or the candidate goes back to their employer and their employer matches the offer in order to keep them, in effect bringing forward their January pay rise. And then from a client perspective, the clients typically say, can you start again? Can you have a look to see if there's other candidates that could be of interest to me?

I think it's probably also worth pointing out that this just isn't a one-way contract. I mean, I think some of the friction that we see is with candidates, and that's what you've called out. But there is friction on the other side with clients, which is that we get multiple occasions where we have two candidates at final stage, which is normally revenue that, in a typical market we would forecast. If you have two of two at final stage, typically one of them will get offered the job and accept and that will turn into revenue for us. What we're seeing more often than we would like in these situations at the moment is a client will often see two candidates at final stage, call us up and say, I like this about him and I like this about her. Can you go away and find me a candidate that has both of those things? And again, we start the process all over.

So it's not just candidates losing their nerve, clients want a perfect candidate if they're going to make an offer. And then we've got to try work with them to try and get a salary offer that's going to get it over the line. So that's really where it becomes more difficult and that's probably why you see that good consultants, experienced consultants that have been with us for a period of time, certainly the kind of consultants we have in brands, like Page Executive, are still doing a good job and making good money. It's actually just harder for less experienced consultants to manage those situations because they're very difficult to try and weave your way through and negotiate on both sides. Fee rates, I'll pass that one over maybe to Kelvin.

Kelvin Stagg: Yeah, fee rates are actually holding broadly flat at the moment. So we're not really seeing huge pressure on fee rates coming down, but they're probably towards the top of what we expect in most markets. I think any movement in our group fee rate at the moment is more about mixed difference between different markets, because some do have materially higher fee rates, such as Germany, such as the US, parts of Asia, than you typically see in places like the UK or Australia. So I think fee rates have topped out, they are ever so slightly year on year.

In terms of average salaries, the average salary we're placing on is also broadly similar now to what we've been placing on for the last 12 months or so. The offers that candidates are getting, as Nick pointed out, are up maybe 5% to 7%. But that's not in itself pushing our average salary up, it's people that haven't moved for a while that are therefore getting that small increase on their salary. And productivity overall was down 4% and that really just reflects Europe moving closer in terms of the acceptance rate to the rest of the group and therefore having more placements and offers rejected within Europe. So within the mix it hasn't really moved outside of Europe.

Rory McKenzie: That's very helpful. Thank you, both.

Operator: The next question is from Remi Grenu, from Morgan Stanley. Please go ahead.

Remi Grenu (Morgan Stanley): Yeah, good morning. This is Remi here. Thanks for taking my questions. I've got two. The first one is if you can elaborate a little bit more and tell us how you are reading that slightly weaker exit rate in September. I know that the phasing through the quarter might be a little bit different given the summer and phasing impacts. So yeah, your read on that minus 6% would be great. Any flavour you can add there. And then the second one is on France and Germany, more specifically. Based on that exit rate in September and discussion with your clients, interested in what is your base case now at this point for these two countries? And whether - what you think is most likely that we are seeing low volume of activity at - stable levels of activity at very low levels? Or if you believe that even these exit rates, and discussion with clients, there could be further pressure there as we go through the rest of the year. Thanks.

Nicholas Kirk: Thanks, Remi. Okay, well, I'll talk a bit about France and Germany and then let Kelvin comment on the exit rate. So let's do them one by one. So France, first of all, we saw a pretty resilient performance from our business in H1. But we've seen temporary activity soften in Q3, particularly in September where the temp rates just, or temporary placements weren't as high as we'd anticipated, which will in turn impact Q4 obviously. Because if they're not in play then we're not going to be charging margin on them through the quarter.

No significant change in permanent in France. It's been tough most of the year and it's still similar. Job acquisition's probably been a little bit more difficult, but there, again, interviews have been probably a little bit better. So jobs down a bit, interviews up a bit. We have a large business there that covers public sector and not for profit, that continues to be impacted by the political backdrop. As you know, there's been several elections, there's no government to speak of. So that's been tricky and I think that will continue to be the case. So that's going to be impacted through the rest of the year. That said, again, trying to pull out some positives, we've seen some good successes with some of our enterprise clients. We've won some good contracts in France through Q3. So yeah, I mean, overall I think we're calling out France because it is uncertain and it is one of our big two markets. And we wanted to make sure that we highlighted the uncertainty and the weakening going into the second half of - well, the final quarter of the year.

As regards to Germany, I think we've probably experienced kind of a slight deterioration there in sentiment during the quarter, during Q3. Our clients remain cautious around cost, budget pressures are impacting new contract volumes, and clients frankly are preferring to extend existing contractors rather than taking on new contractors. From a permanent perspective, I think jobs have become a bit more difficult to acquire. They're still out there, but I think as I've called out in one of our earlier trainings' statements, was that in Germany we're seeing clients often trying to fill the role themselves first in order to manage their costs and then coming to us afterwards when they struggle to identify the talent through their own sources.

Permanent candidates themselves are very nervous around changing roles. You know about probably the laws in Germany, so you are exposed in that probationary period at the beginning. Therefore we're seeing high levels of candidates pulling out during the interview process or being bought back, which is what Kelvin was speaking about a moment ago. There's no significant variation that we've seen by discipline or sector, but also as with France, the current political backdrop isn't helping. There is a bit of a negative sentiment there and a bit of a lack of confidence as a result.

So yeah, we call those two out because they are our two biggest markets. It has deteriorated in Q3. I think there will be an impact going into Q4. So yeah, it is tough and we're kind of waiting to see some alignment there with the political backdrop because I think that will help confidence and boost sentiment around business.

Kelvin Stagg: On the exit rate, I think what's probably important to note is unlike our competitors who largely remunerate their consultants on a monthly commission, we actually remunerate based on a quarterly profit share. And in normal market conditions that would mean that we tend to get quite a big run on revenue at the end of the quarter. And so in normal years you'd expect March and June to be two biggest months of the year and you'd expect September to be fairly sizable as well.

What we've seen this year, and to simplify it a bit, was Q1 was broadly minus 10, minus 10, minus 18. Q2 was almost identical. And in Q3, it was pretty similar, but we exited at 16, which is probably because the comps were getting a bit easier last year. And therefore what we've seen is that we're not managing to get that run at the end of the quarter because actually the candidates acceptances are sort of calming down that quarterly push. And so really as we've gone through the year, it's flattened out the quarters such that the absolute revenue numbers are much more closely aligned month to month than they are quarter to quarter. I say that largely because I'm not sure I would therefore read a huge amount into the exit rate in September, in the same way that the exit rates in March and June didn't really tell us about what was coming the month after that. I think we're just seeing softer comps and we're seeing that quarterly cycle disappear while we're in this very unusual trading conditions, I would firmly expect it to come back once trading conditions restore themselves. So I think the 16%, whilst it was absolutely the exit rate, it probably doesn't tell you a huge amount about what's coming in Q4.

Remi Grenu: Okay, understood. Thanks very much.

Operator: Our next question comes from Karl Green at RBC. Please go ahead.

Karl Green (RBC): Yeah, thanks very much. Good morning. Two questions from me. Just the first one. In terms of the kind of candidate's unwillingness to move, I mean, thinking about the UK and possibly other jurisdictions as well, do you get any sense at all that fiscal drag is feeding into people's thought processes as well in terms of taking a pay rise, but actually the marginal tax rate is, in some instances, punitive? Is that - are you picking up on that anywhere in the UK in particular? And then the second question, completely unrelated, just on the balance sheet, you obviously ended the quarter to the accrual for the interim dividend at close to £80 million, so you're on track another good cash performance here. Just any updated thoughts about the potential deployments of that cash as you go through - towards the preliminaries, please?

Nicholas Kirk: Thanks, Karl. Okay, well I'll take the first one then pass on to Kelvin. I've certainly not spoken to a consultant who's talked to me about a turndown based on fiscal drag, that's for sure. I think the truth is that the process of moving jobs, I think that often when we're asked questions about it, people want to boil it down to one thing. It's a work from home thing, it's a salary thing, it's a tax rate thing. It is such a broad cocktail. I mean, for anyone who's ever moved jobs, there are so many factors involved. So to sit and say it's any one thing I think is oversimplifying something that's incredibly complex. It's a big deal. We deal with white collar professionals, 70% of them are moving jobs from a permanent perspective, so they don't have to move. They're in a job, they're being paid, there's no pressure to move. It's a decision they're making.

And again, that's probably another important thing to stress, is that we're still not in a world whereby we're moving people who are out of work. I've seen it in the past when we went through the financial crisis, we had good candidates coming to market that suddenly had lost their jobs. That isn't the case right now. Candidates are in a position where they're choosing to move or choosing not to move. So I think it's - the actual decision-making process, it's really important that people step back from it and go, oh, there's so many things involved. If you want to kind of try and simplify it down as we try to do in these statements, what is the overriding sentiment that you're looking for?

And that's the thing that's missing. It's that confidence that I do my list of things, which is, all the pros for moving, the cons for moving, stack them up against one another and then go, are there enough in each column? Is it balanced in the right way I'd like? And then do I feel confident that something won't go wrong in the process? And as I say, you're a permanent candidate, you're a white collar professional, you are taking career steps. This isn't job hopping. You want to plan it properly, you want to make the right move. And if you're going to do that, you really want to have a level of confidence that the market's going to support your planning and your thoughts as to where your career is going to go.

So yeah, I think there's a lot to it in terms of making a move and it just doesn't help when people are in a situation whereby the headlines every day are so negative. So I think that's the shift, but I do genuinely believe that there's a lot of people sat there going, I do want to move, it's just about timing.

Kelvin Stagg: Yeah, and I can take the one about the cash number. I think nothing's changed on our cash policy, which is that we like to have around £50 million of net cash at the end of January. And that would be normally after paying out around £30 million in annual bonuses to the senior staff and the Q4 profit share in January. That brings us back to a target of £80 for the year-end. We obviously try and guess that at the time of the interims, which - realistically, at the end of July to announce it in early August. We didn't make a special dividend, supplementary return this year. We didn't feel that we had enough cash to make that worthwhile. Having said that, I suspect that we will turn the year end ahead of where we thought we were going to be. Best guess today would probably be about £20 million.

We are normally in the market buying shares to hedge share plan exposures in March. That's normally about £15 million that goes into the employee benefit trust. And we will be preparing to pay a final dividend of around £30 million in July. It is possible, should we have additional cash at the time and the share price be where it is today, that we could look to announcing a share buyback at the prelims. But that's for then, or alternatively nothing's changed, and we would roll it into a special dividend that we would announce at the interim. So we've always said that we are not adverse to making those supplementary returns either by way of special dividend or share buyback depending on the conditions at the time. And that remains the case today.

Karl Green: Thanks very much.

Kelvin Stagg: Thanks, Karl.

Operator: Next question comes from Andy Grobler from BNP Paribas. Please go ahead.

Andy Grobler(BNP Paribas): Hi, good morning. Just three from me, if I may. Firstly, just on the turndown rates, could you talk a little about the difference by region versus history? Because you talked to the group level around 40% versus historically at 20%, just it does that very much through your major countries. Secondly, on Germany, you talked earlier about the change in sentiment, short term, has your view on the structural opportunity in Germany changed given all of the headwinds that that economy looks to be facing over many years? And then thirdly, we had some changes to UK Labour regulation pretty recently, will that impact your business to any great degree? Thank you very much.

Nicholas Kirk: Okay, thanks Andy. Take all three of those. Okay. In terms of turn down rates, we called it out because when we first saw it, it was in our biggest market. So we'd seen it in France and we've seen it in the UK, this move from a turndown rate of one in five to two in five. And the more we've probably spoken at a regional level with the regional managing directors, the more we realise it's in every market. So it might not be exactly the same from 20% to 40%, it might be from say 18% to 35%, but broadly speaking, the trend is everywhere we go, which is this expectation that more, and measurably more, turndowns than we've had before.

And as I said in the previous question, not just from a candidate side perspective, but from a client side perspective. So it gets at the end of the process, the client decides the candidate isn't right, wants us to start again. Job's still live, wants it filled, just increases time to hire. Or the candidate gets the end of the process, either get fought back or gets cold feet and decides that now is not the right time to move. So yeah, I mean, that's the aggregated average, but there's no market where it's significantly different to that in terms of a turn down rate.

In Germany, no, the view hasn't changed. I mean, actually there's a lot of reasons to be positive because of our exposure. We're not into the big automotive, we're not into the big industrials. We've always been more focused around the SME markets, we have a really good business there. And I think structurally we feel we're in good shape, but we are going to have to hold our nerve now. We've had loads of good years out of Germany, we've been very grateful as it's edged its way forward. I think as we said in the trading statement this time around, it actually tipped over and became our biggest market in Q3. So a bit of a landmark for them. But no, I think looking forward, we still remain very, very positive about Germany and we've just got to make sure we hold our nerve as we always have done over the years.

And then finally on UK employment law, I mean, there just seems to me at the moment to be quite a lot of consultation that needs to go on. I mean, from what I've read, there's going to be two years of consultation, and one would maybe assume therefore there might be some dilution of some of that employment law. Because there are one or two bits of it that I think will make business a bit trickier around rights from day one, et cetera. It might lean more people towards hiring temporaries than hiring permanents, as an example. But I would imagine that give it two years of consultation that the paper that we see today isn't the paper that will actually be the one that goes into law.

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

Operator: Our next question is from Andreas Wolf at Warburg Research. Please go ahead.

Andreas Wolf (Warburg Research): Hi, good morning. Thank you for taking my question. The first one is on Germany again, could you talk about your market share in the white collar perm business? And the second is regarding the competitive landscape in Germany, do you see any players becoming especially aggressive, i.e., accepting, for example, lower commission rates? Thank you.

Nicholas Kirk: Okay. It is incredibly difficult to get exact detail around market share. The reason being is that there's only a small number of our competitors that are listed organisations, publishing their results like we do. And the rest will be made up of boutiques that will be companies. And individually, they're not big organisations, but combine them all together, and they make up the large share of the market. So trying to call out market shares is difficult. We've always positioned ourselves as being the leader in permanent white collar recruitment. We believe we are. It's still a slightly over 50% of our business in Germany. But to give you a market share number, I'd be guessing because there just really isn't an organisation out there that seemingly can accurately pull together the detail for the market.

As regards competitors, no, we've not seen any significant shift. I mean, organisations tend to all be trading in the same markets and suffering from the same headwinds. And then when things improve, everybody benefits and businesses move forward. But no, there hasn't been any particular pressure on fee rates. Fee remain - fee rates remain high in Germany because there is talent scarcity.

And I think stepping away from Germany, I mean, that's the interesting thing around all of this, is that if you look at it in terms of the salaries that are being offered, yes, they're not as high as an increase as they were in 2021, 2022, but they're still good salaries on the table. The fee rates are at same levels of last year, which is broadly record levels for our company.

It's a volume issue, it's getting the volume of deals through the door, because the other two factors really do work in our favour. And the fee rates have not come under pressure because there is talent scarcity. And clients attempting to recruit for themselves actually just emphasises that to them, which is, hey, this is difficult, isn't it? We tried to give it a go ourselves. We popped an advert on a job board, it hasn't worked. We're now going to need your help. And that's why fee rates are remaining high, because it's really hard to get hold of good people.

Andreas Wolf: Thank you.

Operator: As a reminder, for any further questions, please press star one on your telephone keypad. We have no further questions on the call, so I'll hand the floor back to Kelvin.

Kelvin Stagg: Thank you. As there are no further questions, thank you all for joining us this morning. Our next update to the market will be our fourth quarter trading update results, and that's on 13th January 2025. Thank you.

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