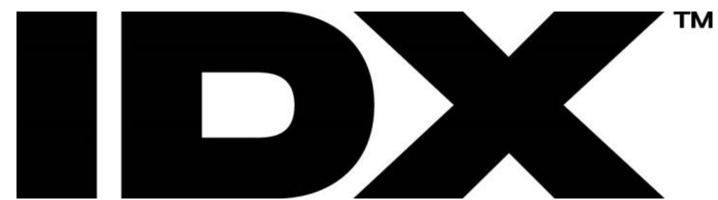

PageGroup
Q4 Trading Update

Monday, 13th January 2025

Headline Numbers

Kelvin Stagg

Chief Financial Officer, PageGroup

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

Cautionary Statement

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

Ongoing challenging market conditions, worsening in Europe

The Group delivered gross profit of £196.7 million in the quarter, a decline of 13.0% in constant currencies against Q4 2023. Gross profit for the full year was £842.5 million, a decline of 12.9% against 2023. We continue to see challenging market conditions in the majority of the Group's markets. Whilst most markets were sequentially stable, we experienced a further worsening in trading activity and sentiment in Europe, particularly in our two largest markets, France and Germany. Our fee earner headcount reduced by 130, or 2.4%, in the quarter, mainly in Europe and the UK. Overall, the Group ended the quarter with 5,370 fee earners and a total headcount of 7,361.

Due to the tough macroeconomic conditions, combined with our decision to broadly hold on to the level of our fee earner headcount, gross profit per fee earner, our measure of productivity, was down 5% compared to Q4 2023. Our balance sheet remains strong, with net cash at the end of December of around £95 million. This was up from £93 million at the end of Q3, having paid out the interim dividend of £16.8 million on the 11th October.

Financial Review – Q4 Perm and Temp Ratio

Similar declines across temporary and permanent recruitment

I will now give a brief financial review. During periods of market uncertainty, clients often seek more flexible options in non-permanent recruitment. However, we saw similar declines across temporary and permanent recruitment in Q4. This was due to softer activity in trading in our European businesses, where we have a higher proportion of non-perm business, as well as a tougher comparator in temporary recruitment. Temporary recruitment decreased by 14.2% against Q4 2023, with permanent down 12.5%. Our ratio of permanent to temporary gross profit was 70:30, consistent with Q4 2023.

PageGroup, Michael Page and Page Personnel

In Michael Page, permanent recruitment represented 78% of gross profit, while in Page Personnel it was less at 45%. Michael Page was the stronger performing brand, down 8.0% compared to a decline of 25.1% in Page Personnel. The portion of the decline in Page Personnel was due to the transition of teams in certain markets to Michael Page as part of our strategy to improve profitability in our core business.

Headcount Reduction Consistent with Q3

Reductions mainly in Europe and the UK

We reduced our fee earner headcount by 130, or 2.4%, during the quarter, with reductions mainly in Europe and the UK. During the year, we drove further efficiencies in the organisation through the closure of our Shared Service Centres in the UK and Singapore, with the transition of activities into Barcelona, Buenos Aires and Kuala Lumpur, and non-fee earner headcount increased by 49 in the quarter, or 2.5%. This increase was due to the double

running of around 65 heads due to the transition of our Shared Service Centre from Singapore to Kuala Lumpur.

We continue to review our fee earner headcount, reallocating resources in line with our strategy into the areas of the business where we see the most significant long-term structural opportunities, as well as ensuring it remains aligned to the levels of activity we are seeing in each of our markets.

Productivity Down 5% on Q4 2023

Continued tough market conditions

Due to the tough macroeconomic conditions, combined with our decision to broadly hold on to the level of our fee earner headcount, gross profit per fee earner decreased by 5% in constant currencies compared to Q4 2023. Although salary levels remain strong, offers made to candidates are not as elevated as they were in 2022 and early 2023. As a consequence, conversion of interviews to accepted offers remains the most significant challenge as the ongoing macroeconomic uncertainty continues to impact candidate and client confidence. While our fee rates remain at high levels, as clients' recruitment budgets have tightened they have become more risk-averse, which has continued to slow the recruitment process, impacting time to hire.

Regional Review – Q4 Gross Profit -13.0%

Negative foreign exchange impact of 4.2 ppts

I will now present a brief regional review. Group gross profit declined 13.0% in constant currencies against Q4 2023 and we saw tough market conditions in the majority of the Group's markets. While most markets were sequentially stable, we experienced a further worsening in trading in Europe, particularly in our two largest markets, France and Germany. Foreign exchange had a negative impact on the quarter's growth rate compared to the prior year, decreasing the reported gross profit growth by 4.2 percentage points, or £9.8 million.

EMEA

Worsening in trading conditions, particularly in France and Germany

In our largest region, Europe, Middle East and Africa, which represented 55% of the Group, we declined by 15.9% on Q4 2023. The tough conditions and reduction in activity levels that we experienced in Q3 worsened in Q4, with lower levels of candidate and client confidence. Michael Page was the stronger performing brand, down 13% compared to a decline of 21% in Page Personnel.

Permanent recruitment, down 14%, was more resilient than temporary, down 19%. We saw particularly tough conditions in temporary in Germany, the Netherlands and Spain, with softer activity and trading. In permanent recruitment, France and Germany were impacted the most heavily. France, the Group's largest market, which represented 15% of the Group, declined 17%. Temporary recruitment, down 12%, outperformed permanent, down 21%. Germany, representing 12% of the Group, declined 23%. We saw tough conditions in all brands, with a deterioration in client and candidate confidence impacting both permanent and temporary recruitment. Market conditions remained tough throughout the rest of Europe.

In the Middle East and Africa, gross profit was down 8%. In line with the tougher trading conditions we reduced our fee earner headcount by 116 in Q4, mainly in France and Germany.

The Americas

Mixed performances across the region

The Americas, which represented 18% of the Group, and excluding Argentina due to hyperinflation, declined by 5.5% against Q4 2023. North America was up 2%, with the US up 3%. This was an improvement on the decline of 11% in Q3. We saw an increase in activity levels and trading during the quarter, particularly in engineering, accounting and financial services. In Latin America, excluding Argentina, gross profit declined 14%. Mexico, our largest country in the region, was down 4%; an improvement on the 15% decline in Q3. Brazil was down 12%, albeit against a tough comparator due to a one-off provision release in the prior year. Excluding this item, Brazil grew 1%. The remaining countries declined 24% collectively. Across the region, fee earner headcount decreased by 8.

Asia-Pacific

Ongoing challenging market conditions across the region

In Asia-Pacific, which represented 15% of the Group, Q4 gross profit declined 14.6% on 2023, with ongoing challenging market conditions across the region. In Greater China, which represented 4% of the Group, we declined 23%, broadly in line with Q3, with Mainland China down 26% and Hong Kong down 19%. While conditions in Greater China appear to have stabilised, we saw no sign of improvement. Southeast Asia declined 4%, with Singapore down 3%. Japan declined 6% and India declined 7%, albeit against a tough comparator. Australia declined 25%, with ongoing challenging conditions in all states. Our fee earner headcount increased by 17 in the quarter, mainly in Japan. Our non-operations headcount increased by 74 in Q4 due to the double running of around 65 heads as we transitioned our Shared Service Centre from Singapore to Kuala Lumpur.

UK

Ongoing subdued levels of client and candidate confidence

In the UK, which represented 12% of the Group, gross profit declined 13.6%, in line with Q3. The conversion of interviews to accepted offers remains a significant area of challenge, with ongoing subdued levels of client and candidate confidence also impacting decision-making and increasing time to hire. Reflecting the continued challenging trading conditions, our fee earner headcount reduced by 23 in Q4 to 676.

Summary

Ongoing challenging market conditions, worsening in Europe

I will now give a brief summary of the results. We continue to see challenging market conditions in the majority of the Group's markets in Q4. While most markets were sequentially stable, we experienced a further worsening in trading in Europe, particularly in our two largest markets of France and Germany. Conversion of interviews to accepted offers remains the most significant area of challenge as ongoing market uncertainty continues to impact candidate and client confidence, restricting the levels of offers made to candidates and

extending the time to hire. We continue to review our fee earner headcount, reallocating resources in line with our strategy into areas of the business where we see the most significant long-term structural opportunities.

Overall, our focus remains to balance near-term productivity with ensuring we remain well-placed to take advantage of opportunities when market conditions improve. We have a diversified and adaptable business model, a highly experienced management team, a strong balance sheet and our cost base is under continuous review. We now expect 2024 full year operating profit, after one-off costs of around £5 million relating to the closure of our Shared Service Centres in the UK and Singapore, to be towards the lower end of the current market consensus range of £49 million to £58.5 million.

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

Q&A

Rory McKenzie (UBS): Morning all, it is Rory here. First question is appreciate you do not give an exit rate for December, given it is seasonally hard to read the trends, but just given how the weeks fell it feels like the 6th January could have been an important start date, with lots of new joiners. Is there anything you can talk to about the placement trends through December or what you have learned in the return to work so far that you can share?

Then, secondly, you referenced the unusually similar trends that we are seeing in temp and perm at the moment, which, of course, has been a puzzle to all of us. I take your point that mix and comparators are different, but it does not feel like clients are at all trying to build a more flexible labour force to deal with the uncertainty, as we would expect. Do you think that is an affordability issue? Is it because their own internal productivity is at lows? Is there anything you can talk to about, again, those kind of client budgets and plans that you have learned from your conversations since we last spoke? Thank you.

Nicholas Kirk: Yeah. No worries, Rory, I can take those. So, there really is not much we can say about December or, really, January. Our consultants have only been back for a week, so there is not really a lot to say in one week of returning back to work and catching up post-Christmas, etc., so no. Then through December, it is a strange old month, as you know. You have two weeks of trading at the beginning, where people are still interested in doing interviews and talking about assignments, and then, quite quickly, it starts to close down. So I certainly would not call out anything from December or one week in January at this early stage.

On the perm/temp mix, I think it is an interesting question, isn’t it, and something that slightly surprised me and why I wanted to dig a little bit deeper when I initially saw just the top-line numbers. As we said in the statement, a lot of this is due to, specifically, the fact that we have a higher proportion of non-perm in Europe and our European businesses had a tough quarter.

That said, there is a bit of detail behind it; in certain markets you are still seeing this flight to flexibility. So UK would be a good example of that that you will have seen in the statement. France would have been a good example of that as well, where you still see perm outperforming non-perm. Then there were other factors going on in certain markets. For instance, in Spain we had a huge project, a huge non-perm project, in Q4 2023. So the

comparator there was really off the chart, which meant that we had a very strange balance of business in Spain – I think perm was +1%, temp was down 42% – but that was only down due to that huge comparator that we had.

So I think there is a lot at play. Coming back to the point that you then went on to make about affordability and costs, yeah, those conversations are definitely there. If you went to somewhere like Germany at the moment, the decisions at the moment around hiring would be similar, whether it is perm contract or temp, which is, 'Can we afford it?,' 'Is it in the budget?,' and 'Where are we sitting at the moment in terms of the performance of our business going into 2025?' So I think it just adds up to the fact there is a lot of uncertainty out there right now, particularly in the markets that we called out, like Germany and France.

Rory McKenzie: Yeah, makes sense. Thank you.

Andrew Grobler (Exane BNP Paribas): Hi, good morning. Three from me, if I may. Firstly, just on productivity, that declined again in the quarter and was down a bit more than it had been. Maybe it is just France and Germany, but are there any other reasons for that decline that we should note? On that, are there any signs of life across – life is probably the wrong term, but signs of improvement across the Group?

Secondly, the US improved. Q4 in December is a slightly strange period, as you have mentioned. Do you think that is a trend that we can see continue through 2025?

Then, lastly, just on the strategy, '24 was a difficult year. When you look at the strategy you set out in September '23, has anything changed within that around, I do not know, executive search or technology that we should bear in mind? Thank you very much.

Nicholas Kirk: Thanks Andy. Yeah, I can take those ones. So, firstly, in terms of the productivity the tricky thing at the moment for us is that maybe in downturns in the past, if you suddenly do not have any jobs to work on then it is easier to make decisions around headcount. At the moment, when I look at the activity that we have, whether it is jobs or whether it is interviews, our consultants are busy. So if I made the decision to significantly reduce the fee earners I would just be leaving work on the table; there would just be jobs that we would not be able to work on because we would not have capacity.

So it is a balancing act, we continue to look at it. As you heard in the statement, we have obviously taken some headcount out in markets that have been more difficult, for instance France and Germany. We have invested into markets where we believe there is opportunity in line with the strategy, places like Japan, places like the US, etc., and we will continue to do that. So when we talk about broadly holding headcount it can sound quite passive, but it is not; we are doing a lot behind the scenes to reshape the organisation, ready for when the recovery comes.

The US, I think it does come with a bit of a health warning. In Q4 we had an election, we had Thanksgiving, we had Christmas. Clearly, we are pleased to see growth. I think it is its first quarter of growth that we have seen in the US for two years and we welcome that, but is it a trend? I would not call it a trend at the moment. I guess we will see how things progress through Q1 and we will update you on the results for Q1, and then perhaps, if we have had two quarters of growth in a row, then maybe that does become a trend.

Then on the strategy, no, no change. When we wrote the strategy and when we presented it to you all back in September '23, we modelled seven years of sensible market conditions. They did not need to be ridiculously stellar, but, equally, we certainly were not modelling it based on what we have seen since. I think we stand behind that. The strategy, we feel, is the right one. When we get to the prelims we are going to be able to update you on more of the elements of the strategy around Enterprise Solutions, around Page Executive, around technology, and there is some really exciting stuff in there that we are looking forward to telling you about. So, no, no change.

Andrew Grobler: Thanks very much.

Karl Green (RBC): Yeah, thanks very much. Good morning. Just three questions from me. Following on from the discussion just there in terms of consultant busyness, are there any observations you can make about the shape of the funnel across the four regions, any material changes? Again, you have made the point that, broadly, consultants are still busy, but thinking about, particularly, France and Germany is the shape of that funnel changing at all in terms of job mandates coming in, interview volumes, etc.? That is my first question.

The second question, a decent performance on cash. Just any updates on your thoughts around optionality as you think about next year on special dividends or buybacks.

The last one, a bit of a geeky technical question, but just any regional margin implications from some of the shared service facilities as some of the costs get moved around, just in terms of any margin implications we should be aware of? Thank you.

Nicholas Kirk: Thanks Karl. Okay, I will take question one and I will leave Kelvin to questions two and three. The question you are asking is pretty much how we run the organisation. So, yeah, in every country the local leadership team will be looking at the shape of the funnel into their market, and where you see contractions on fee earners it is because at the top of the funnel we have got less jobs or we are getting less interviews off those jobs, therefore we do not need quite the number that we had before. Conversely, where we are investing into headcount it is because we see that there is a bigger market opportunity than we can service with our existing fee earner headcount. The problem of conversion is constant; whichever market you look at, that conversion of final interviews to offers is a problem that we hear about whoever we talk to around the world.

Yes, to a greater or lesser degree, the funnel size and shape of it will be slightly different in every market. Where it is stable, you will see the fee earner's headcount being stable as well, where you see it contracting you will see some slight reduction and where you see it showing signs of positivity, or that we feel that there is a bigger market opportunity than perhaps we can access with the resource we have, then we will selectively add in some headcount. Broadly speaking, the challenge in the funnel, which is, I suppose, what we have talked about quite a lot, that is constant wherever you are in the world.

Kelvin Stagg: Yeah. I will take the second two, Karl. So, on cash, cash came in, actually, pretty much exactly where we were expecting at 95. That is 15 ahead of what we would normally target. So, I know most people are aware of our capital allocation strategy. We look, normally, to try and get to about £50 million of net cash at the end of January. That is after having paid out what would normally be about £30 million in full year bonuses for the senior leadership, as well as the Q4 profit share for our consultants. That means we are £15

million ahead. We sort of knew that when we did the interim, but we felt that it was probably a bit small – 10 to 15 for a special dividend – and we thought we would hold it back.

We do intend to increase our ordinary dividends, and, again, as you know, that has been by 4.5% for quite a few years now, so we shall probably do that when we announce the final at the time of the prelims. We would normally then consider additional cash, surplus cash, for a supplementary return when we do the interims. It is not a decision for now because we are in a closed period till the prelims, but there is a possibility, given where the share price is, that we might decide to actually buy back some stock earlier on in the year, once we come out of the closed period. If we intend to do that we will announce it at the prelims. So, no change on strategy, slight surplus on what we had, optionality in terms of our ability to go and buy back stock, but that is a prelim announcement if, indeed, we intend to do that.

Coming on to the Shared Service Centres. I think most people are aware we built a Shared Service Centre in Europe about 10 years ago now and we also built one in Buenos Aires, and we had our Shared Service Centre for Asia that many years ago we moved up from Sydney into Singapore. We also had a finance function, a Shared Service Centre, based in the UK in Slough. Over time, it became clear that we would get efficiencies out of shutting that and moving the activities into Barcelona, and we supported North America out of the UK as well. So moving those activities into the right time zone in Buenos Aires. Over time, Singapore has become increasingly more expensive and the ability to get good resources in Kuala Lumpur has become apparent, and so we shut down, or in the process of shutting down, our Singapore Shared Service Centre and moving those activities into KL.

The costs for each of those activities were very similar and there was £3 million of costs relating to redundancies in shutting down the UK Shared Service Centre that was in Q4 ’23, and then there was an additional double-running cost of £2 million that fell into Q1 ’24. The profile for Singapore is the same, so £3 million fell into Q4 and there will be another £2 million that goes into Q1 2025. The ongoing savings from those are about £5 million a year, and there is about a £2 million saving that we saw during 2022 from the UK Shared Service Centre that offset the £2 million, but it is an ongoing saving. In the same way, there will be a £2 million saving from Singapore that will go into 2025, and then we will get the full £10 million of savings, £5 million from each of those shutdowns, that will start coming through in 2026.

Karl Green: That is great, thank you.

Steven Wolf (Deutsche Bank): Morning all. Just a couple from me in terms of, perhaps, in France and Germany, both sides of this in terms of where do you think the industries are that have perhaps gone weaker and the parts that have worsened during the period? Then, conversely, are there any bright spots within those markets where you have mentioned activity is good, but it is just getting those jobs converted? So, both sides of the coin in those markets.

Secondly, any thoughts on the fee rates, which have remained, as you mentioned, incredibly strong in this kind of market? Seems still a little unusual in the weakening markets.

Then, finally, just in terms of any more costs you might be considering in the non-fee earner side, if markets are going to remain, perhaps, more challenging than expected over the next 12 months. Thanks.

Nicholas Kirk: Okay. I will take the first two and leave the costs to Kelvin. I will take your second question first, which is on fee rates. No, we have not seen any changes, they still remain at inflated levels to the fee rates across all of our markets. I do not know, maybe I am not hugely surprised by that because, again, when I think about the market conditions that we have, we still have real issues around shortages of labour. The talent just is not out there. Therefore, based on supply and demand, if a client tries to do it for themselves they quickly find that candidates are not applying, certainly the right candidates are not applying to any advert that they have run, and therefore they come to us and we are in a position whereby, because the talent is hard to find, frankly we do not want to discount our fees. So, I think from that perspective it is just the supply and demand model at work, and, as a result, candidates are hard to find, therefore fee rates remain at high levels.

I think across France and Germany for us it has just been tough across the board. In Germany, I mentioned earlier that it has been difficult across perm, temp and contracting, equally difficult due to, really, the sentiment which comes off the back of the political situation there; the fact that they do not have a government in place, they cannot sign off a budget. It just all plays through to organisations feeling that they are going to be more prudent; I think recruitment budgets are tighter than they were. Yeah, it is a significant concern looking at Germany because, for us, it is such a big market and has performed very well for a period of time, but I think it is in for a bit of a tough run.

Then, for France, again, all sectors, really, have been negatively impacted. The best performing for us in Q4 were defence, aerospace and energy. Then, outside of that, again, all markets were difficult, all sectors were difficult, all disciplines were equally challenged. So, yeah, both of them have had a pretty tough run recently.

Steven Wolf: Sure.

Kelvin Stagg: Yeah. I come to the cost one. We do not have anything material to announce at this point in terms of large savings. I think, given how we exited last year in terms of the challenging market conditions and how it now looks going forward, we will obviously be looking to make cost savings where we can. We have put cost savings into this year’s plan to offset wage inflation. We think that the wage inflation in the business is probably somewhere around £8 million, and probably a few other inflationary items on things like software licences.

So, looking at reducing volume activity, particularly in our Shared Service Centres. We will look pretty hard at media and advertising spend and any other activities that we can, essentially, mothball the activity, without losing the long-term capability to switch it back on again, at a time when we just do not need it. So we will certainly be looking to make cost savings, and I will probably talk more about it more materially when we actually get to the prelims.

Steven Wolf: Perfect. That is great, thank you guys very much.

Nicholas Kirk: Thanks Steve.

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 full year 2024 trading update on the 6th March 2025. Thank you all.

[END OF TRANSCRIPT]