PageGroup Q2 and H1 2021 Trading Update

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Q2 and H1 2021 Trading Update

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Welcome

Good morning everyone and welcome to the PageGroup second quarter trading update. As a result of the quarterly trading being much stronger than expected we have brought this call forward by a week. Therefore, thank you for joining us at short notice and apologies for any inconvenience this has caused. I am Steve Ingham, Chief Executive Officer and on the call with me is Kelvin Stagg, Chief Financial Officer. 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.

Q2 & H1 Overview

Key financial highlights

The improvement in trading conditions we experienced at the end of Q1 continued into the second quarter. Consequently, the Group delivered gross profit of £219.7 million in the quarter, resulting in gross profit for the first half of £404.1 million. Against 2020 we grew 94.1% for the quarter. Given the magnitude of the impact of Covid-19 in 2020, we are comparing our results in constant currencies throughout this presentation to 2019, which was also a record year. Compared to Q2 2019 we grew 2% in constant currency. For the first half we declined 3.7% on 2019 but grew 38.3% on 2020. Trading in April and May was broadly in line with the exit rate in March, down 3% on 2019. As we saw in Q1, conditions improved materially in the last month of the quarter and June grew 11%.

We have a strong balance sheet with net cash at the end of June of around £168 million. Reflecting the continued improvement in trading conditions in Q2, we increased our fee earner headcount by 176. Our operational support headcount rose by 64 and as such, our ratio of fee earners to operational support staff was maintained at 77:23. Overall, the Group had 5,443 fee earners and a total headcount of 7,075, compared to 6,035 and 7,763 in Q2 2019.

Quarterly growth rate improved to +2%

Significant improvement in June, +11% vs 2019

Overall, our quarterly growth rate improved 2% compared to 2019, which represented growth of 94.1 on 2020. Our five large, high potential markets of Germany, Greater China, Latin America, South East Asia and the US, now representing 38% of the Group, grew 16 with four of the five delivering record-ever quarters.

EMEA

Return to growth in Q2 vs 2019

Looking now at each of our regions, in the largest region, Europe, Middle East and Africa, which represented 49% of the Group, we grew 0.4%, up from a decline of 8.4% in Q1. France declined 11% against 2019, an improvement on the decline of 19% in Q1. June showed further improvement, exiting the quarter down 6%. Page Personnel with a higher proportion of temporary workers was impacted more significantly by the lockdowns.

Germany, the Group's third-largest market, delivered a record quarter, up 26% with June up 43%. This continued to be driven by our Michael Page Interim business which was up 50% for the quarter on 2019. Belgium, Italy and Spain grew 2%, 5% and 7% respectively for the quarter versus 2019 and exited in June up 24%, 11% and 13% with Germany, Italy, Spain, Poland, Portugal and Turkey all delivering record-ever quarters.

Asia Pacific

Our strongest performing region

In Asia Pacific, representing 21% of the Group, gross profit was up 10.5% in the quarter from a decline of 4.2% in Q1 when comparing to 2019. In Asia, 17% of the Group, we grew 19%. In Greater China, 9% of the Group, we grew 10%. Mainland China was up 29% and we exited in June strongly, up 46% on 2019. Hong Kong remained more challenging, down 16% for the quarter, though this was an improvement on Q1. South East Asia delivered a record quarter and was up 35% on 2019 with Singapore up 10% and the remaining countries in the region up 58% collectively versus 2019. Japan was up 17%, delivering a record quarter and a significant improvement on Q1. India, despite being significantly impacted by the pandemic, also delivered a record quarter, growing 47% versus 2019. Australia declined 13%, though exited the quarter in June down on 2%.

The Americas

Significant improvement in Q2

The Americas, representing 16% of the Group, has been one of the worst affected regions by Covid. However, gross profit in Q2 was up 7.7% on 2019, a record quarter and a significant improvement on Q1 which was down 5.6%. The US delivered a record quarter and grew 8% with a significant improvement in June, which was up 19% on 2019. In Latin America, gross profit grew 11%, a record quarter up from a decline of -2% in Q1. Brazil was up 27% versus 2019 and the other large market in the region, Mexico, was down just 4%. They exited the quarter up 31% and 3% respectively. Elsewhere in Latin America, the remaining countries were up 15% for the quarter collectively with record quarters in Argentina, Colombia and Panama.

UK

Trading improved as the quarter progressed, -1.7% in June vs 2019

In the UK, representing 14% of the Group, gross profit declined 9% in Q2, a significant improvement on the decline of 25.1% in Q1. Conditions improved as the quarter progressed and we exited the quarter down just 1.7% in June, with Michael Page growing 7%. Our Michael Page business was more resilient than Page Personnel throughout the quarter with declines of 4% and 24% respectively against 2019.

Summary

Activity levels improved further in Q2

Throughout the pandemic we have continued to focus on the protection and wellbeing of our employees, candidates and clients, whilst progressing strategic investments in our platform to take advantage of the recovery. The tough and challenging year in 2020 has strengthened our culture, diversity and the values in the business, which are now reaffirmed at the forefront of our operations. I am immensely proud of the spirit, resilience and commitment of all of our people. This, I believe, is reflected in these results.

The improvement in results we saw in Q1 continued into April and May, both of which were down 3% on 2019, broadly in line with the exit rate in March. We then saw a significant improvement in June, which was up 11% on 2019. Overall, this meant the Group was up 2% for the quarter compared to 2019. In constant currencies this was a record for the Group. This noticeable improvement in Q2 was seen throughout the Group and was achieved despite the backdrop of continued restrictions or lockdowns in many of our markets. We delivered record quarters in four of our five large, high potential markets and in 17 countries.

We remain confident in our strategy of maintaining and investing in our platform by continuing to invest carefully in headcount, demonstrated by the circa 400 experienced hires we added in 2020, which continued in 2021 and is now approaching 800, as well as rolling out new technology and innovation. Our headcount is currently down 8% on the pre-pandemic level at the end of 2019. As a result of the more favourable trading conditions in Q2, as well as this reduction in fee earner headcount, our gross profit per fee earner is up 15% on Q2 2019 and 86% on Q2 2020.

We are the clear leader in many of our markets with a highly experienced senior management team, which we believe positions us well to take advantage of opportunities to grow and improve our business. We have maintained our focus on driving progress towards our long-term strategic goals. Given the lower headcount, as well as reduced spending on travel and entertaining due to the pandemic, our underlying pre-bonus cost base is currently circa 5% below 2019 levels. However, bonus levels have been higher given the increase in pre-bonus profit and if visibility continues to improve we will further invest in our fee earner headcount in H2. As a result, our underlying cost base would increase.

Looking ahead, there continues to be a high degree of global macro-economic uncertainty as Covid-19 remains a significant issue and restrictions remain in a number of the Group's markets. Additionally, at this stage of the recovery it is not easy to determine whether the improved performance is still the result of pent-up supply and demand or a sustainable trend. However, and not withstanding the early stage in the year, the strength of our performance in H1 and notably in June has further increased confidence in our outlook for the year. Subject to other unexpected events, we now expect full-year operating profit to be within the range of £125 million to £135 million.

Q&A

Hans Pluijgers (Kepler Cheuvreux): Good morning gentlemen, a few questions from my side. First of all, can you give us a feeling on the development of temp versus perm? Have you seen a stronger development in one of the two segments? Secondly, if you talk to your clients, given the strong improvement and especially also in June, do you have the feeling that there is a catch-up also in demand or do you believe it is also looking sustainable into Q3? Thirdly, on the productivity, of course a very strong performance there, you invested in more experienced people but how do you see this going forward? Do you believe this productivity level is sustainable or do you believe that maybe there could be some pressure and it is only for a very short period due to the low level of people compared to last year? if you could give me some feeling on what you see on productivity going forward. My last question is on cash distribution. Of course you have now a very strong cash balance. It further improved. Did you get maybe some feeling on how you see cash distribution going forward and when do you expect to be back at your old distribution policy?

Steve Ingham: I think I can remember all of those, Hans. I will try the first three and then Kelvin can answer the fourth. Temp versus perm, largely speaking throughout the world but particularly reflected in France, our biggest temp market and then the UK, it has been perm that has recovered fast. It is fair to say, you can see that in that Michael Page performance is way stronger than Page Personnel's performance at the lower levels and that is also because the perm element has done a lot better than the temp element. We probably, I would guess Hans, need more offices to open and life at work to get more back to normal than it currently is. At the moment we have 48% of our fee earners roughly around the world working in an office. That ranges from zero where we have got complete lockdown and no one is allowed to go to the office, through to 95% in Mainland China where everybody has chosen to go back to the office. However, China is not a big temp market for us compared to the UK and France where we have had lockdowns and limited numbers in the office. I think that is the same for our clients, that the demand for temps has been lower. It is just starting to improve but our success is largely perm-driven. That is good because obviously to grow in perm does not require capital injection in the same way that temp would. That is to come but with the growth we are seeing in perm that is more than enough to sustain.

In terms of what clients are saying, is it catch-up versus sustainable? It is difficult to tell. They do not usually tell us when they get a vacancy exactly whether it is catch-up or something that they see as part of a growth. Certainly, we are talking to a large number of multinationals in a number of the countries which we operate in and they seem to be strategically investing rather than just dealing with churn. In fact, candidate flow has been quite challenging because I am sure in a lot of markets there is a lot of uncertainty that remains with candidates about whether they should or should not and is now the perfect time to change jobs. Actually, that helps us clearly but in terms of candidate shortages because it makes it more difficult for the clients to do it directly themselves but you would like to think that if candidate confidence continues to improve, and if you take the UK where supposedly lockdowns are going to finish and we are all going to go back to normal in a couple of weeks, you would like to think that will help confidence. Perhaps that will accelerate candidates coming on to the market, which will also improve churn.

In terms of productivity and whether it is sustainable, I think there are two things I would point to that are helping us significantly. 800 experienced hires clearly land in the business and are productive far quicker than if we had done the equivalent, which we will have needed to have done, a number of hires of people that have never worked in recruitment before. Now, some of the people amongst those 800 have literally just joined in the last few weeks so clearly probably have not as yet made revenue for us but if you total up what those 800 have produced in the first half it is £25 million. That would never have been possible if we had recruited engineers, accountants and lawyers and tried to retrain them in recruitment. That experience is definitely helping our productivity and I think will continue to do so.

The second thing that is significant is the times to hire. This is from the time we get a job from a client to the time a job is accepted by a candidate. The key reason for that reduction, apart from the competitive nature of the market as we have moved back into growth and therefore clients are moving faster, making more decisions quicker and so on, is that we are now doing a lot of video interviewing instead of face-to-face. The speed and efficiency of arranging video interviews versus arranging a mutually convenient time between a candidate and a client to get across town and go for an interview typically during work hours, is quite remarkable. In Germany for example, our time to hire has reduced by six days. That makes our consultants more efficient and therefore I would like to think productivity is sustainable.

Sorry, there is a third one. I would also like to think that some of the innovations and the new CRM system which is now available to comfortably over 50% of the Group is also helping the efficiency of our consultants by reducing the proportion of time spent on administrative tasks, allowing them to focus more on client and candidate relationships. We have gone live in Australia in the last quarter and are on the verge of going live in the rest of Asia Pacific. We would like to think productivity will be sustainable. However, if we continue to move into growth versus what was a record year, our headcount will have to go up and therefore particularly in markets where we do not have competition we will be training people to do recruitment which will take longer.

Kelvin Stagg (Chief Financial Officer, PageGroup): Morning Hans. We suspended our dividend policy last year but we did not change it. It is fully our intention to go back to our capital allocation policy this year. To remind you, historically our first use of cash is always with the business, providing working capital and ensuring that we have got whatever capex requirements covered. As you know, that is pretty small on the basis that it is leasehold fit-outs and some of the software improvements that we are currently rolling out. After that, we would buy back shares and place those into the trust. We spent about £10 million doing that back in Q1. Then following that we pay an ordinary dividend and historically that would have been an interim of around £15 million and a final of about £30 million the last time we paid each of those.

We tend to always make that decision at the interims and the interims this year is on 9th August. As I say, we paid an interim last time of about £15 million. I currently would expect that we would reinstate that and possibly increase it slightly. Historically we have increased that between 4% and 5% per year. Then we look at the remainder of the cash that we have got and normally return it to shareholders, more recently by way of a special dividend, historically by way of share buyback and cancellation. Given where the share price is at the moment and conversations that we have had with shareholders, I suspect that the preference at the moment is probably a special dividend.

We have always said that we would prefer to have about £50 million of net cash as the low point for the Group during the year and that low point is normally the end of January. We pay out bonuses to all of our senior staff in January and in a good year I would expect that to be somewhere around £30 million. Ideally, we would turn the year somewhere around £80 million plus or minus any cash that we felt that we needed to ensure that we can reinflate the business for working capital purposes. We have had a very strong last quarter and part of the first quarter really but driven mainly by perm so actually the cash conversion from that perm recruitment revenue has been extremely strong. I would expect fully that when we are out on 9th August we will be confirming an interim and a special dividend but I could not give you the magnitude of either of them today.

Hans Pluijgers: Maybe it is logical to assume that maybe because the growth in temp is somewhat delayed you want to have some caution and maybe need some additional cash to support the temp growth in the second half. Is that maybe also logical to assume from a cash distribution perspective?

Kelvin Stagg: Maybe a small amount. I think in total the working capital unwind was something of the order of about £75 million, of which we have seen probably about £40 million of that go back into the business already. There is a small amount that we could argue could be needed for that. I think we tend to find that we underestimate the cash generation in the latter part of the year anyway. Over recent years when we have tried to aim for the £80 million we have tended to close the year at about £95-96 million. I do not think there will be a huge amount that we would need to hold back but we will have that in mind when we work out what the number is.

Hans Pluijgers: Okay, thanks.

Edward Donoghue (One Investments): Morning gentlemen and not at all disappointed, thank you. Most of my questions have actually been asked by Hans but could you maybe talk about Germany with regard to exit rates? What are you actually seeing there across the various business verticals? Then when you talk about the potential hiring into the second half where will the emphasis be and the potential magnitude of that, as you are running roughly 10% below where you were in 2019? To get an idea of where we might be exiting. It is a bit of rerun of a previous questions but when you hired the original 400 I remember you were talking a profit pool of around £45-50 million, I think. How is that tracking versus that original pool figure, just as a matter of interest?

Steve Ingham: First of all on Germany, you are right, our numbers were quite remarkable as we came to the end of the quarter and I would remind you as well they have been pretty remarkable throughout 2020 as well as the first quarter of this year. In that we have constantly, apart from one quarter, grown and last year was a record year for Germany for us. Largely driven by a five-or-so-year investment in the Interim business which was us focusing specifically on contracting. The focus we have on contracting is particularly geared towards technology and finance of course because that is a strong discipline for the Group. That has continued to grow throughout 2020 and is now accelerating. There is a high demand for candidates which is making it challenging but clearly not so challenging they could not grow 50% in June. We expect that to continue. It takes quite a long time for a consultant to become fully productive when they join us in contracting and we are now at a record level of headcount in Germany. We are hiring and we have got a number of planned hires that are landing in the business in the next three months in Germany. We suspect or think it is sustainable with existing people and people that will join us over the next three and, I suspect, six months.

Where are we seeing it, which verticals? Pretty well most except for large manufacturing which has proved to be quite difficult. We are fortunate in that we are not very exposed to the very large clients, partly because we did not have the capacity to take them on in the first place so others do. Most of our business tends to be the smaller to medium-size enterprises and that seems to be sustainable growth that we can continue. We still have a tiny market share in what is a huge market and so the opportunities seem to be numerous. Trying to give you a flavour of our German business, we are about a third contracting, about a third perm and about a third lower-level perm and temp in Page Personnel. We do have all of those streams as well to be benefitting from and our perm business is not far off the same performance as our Interim business. However, the Page Personnel business, and particularly the temp side, is a slower burn and is yet to come fully onstream. We are in very, very good shape there.

In terms of the second question and Kelvin can come back to you but on the third around the generation of revenue, when we totalled up what the 400 that joined us could prove they did in a previous [inaudible] it totalled £40 million or £50 million of gross profit. We have doubled that number of hires so clearly you would like to think we could double that number as well and there is no reason why not. We are only hiring people who have got a very good track record as well as a very good reputation in the industry. We checked that out against candidates and clients and what they think of them before we hire them. We are going to make the odd mistake and that is reality but they have landed well. Not all of them of course have landed in the offices yet but we have a very low level of attrition compared to the Group from those 800. It is early days but everything points to it being a successful level of investment. Yes, we are very excited. It did not cost us an acquisition cost but obviously if we were buying a business with 800 proven fee earners in it, it would have been very expensive. We do view that so far as a success and I think that is one of the good reasons why we have done well so far this year.

Kelvin Stagg: Yes, in total we now have 804 people on board. They came on, as you know, from halfway through last year and progressively right the way through until last week. They have currently in 2021 delivered £25 million of gross profit and I think they are on target. As Steve mentioned, the attrition rate is extremely low. It is about 15% which is less than half of where we would normally be in terms of new people into the Group, particularly in that first 6-12 months. A number of these people have come on board to help us in disciplines such as technology contracting in parts of the world where we are not great at it. In healthcare and life sciences contracting and so whilst the £25 million for six months is not at the level that we mentioned 400 people could deliver £50, you have to mind that in contracting it takes some time to build the revenue streams up. Individually and when you work it back against the point they came in, they are fully on track to deliver against that original target.

Edward Donoghue: Brilliant.

Steve Ingham: Your other question around where we are going to hire in the future and where we will need to, there are a number of pinch points which we can measure and see through the productivity that we have got. To give you one example, our productivity in the States is incredibly high. I do not think I have seen productivity from a whole country on average as being as high as it is at the moment. For us to sustain what we are achieving at the moment in the States and June was a record-ever month for us by some $2 million, it gives you an idea of where we are at and the headcount is lower. That is not sustainable if we are going to continue to grow in that way so we have to accept that we are going to be hiring into that market. it is the same in Latin America now. We have seen a couple of courses of growth. Our productivity is extremely high for that part of the world. Again, we are going to have to hire in particular into Brazil. We are at over 40% growth and our exit rate in Mainland China so again we are going to have to hire. Look, we hired just under 300 net in the first half. It will probably be a bit more than that in the second half but obviously every month is another month and it tells us a bit more about the year and therefore also the trajectory we are imagining next year could look like. We will literally keep moving that [inaudible], if you like, specifically to suit what we actually see. Yes, it is good.

Edward Donoghue: Great and if I may just follow up with one last question on that point. Kelvin, you guided on the opex before roughly £53-54 million per month and you did indicate previously that that would step up. If you go back to 2019 simplistically you were running around about £59-60 million a month. Is that the kind of figure we should be looking at for the second half and exiting into next year or is there still some headroom within that?

Kelvin Stagg: I think there is still some headroom within that. We are currently travelling with our [inaudible] pre-bonus cost base about 5% below where we were in 2019. That would imply that we are going to be somewhere around the £57 million mark. I think we are still not really travelling. Our travel in 2019 was about £1 million a month. I cannot see it realistically ever going back to that because I just do not think people will travel as much whether it is for interviewing purposes or just purely for managing the business. However, it will come back to a certain extent but there is still a degree of that is not in the business. There is a degree of client and staff entertaining that is not in the business and we are still slightly lower on headcount than we were back then. I would look for an underlying of somewhere around £57 million and I think that is probably good for an average for the second half. Unless things really take off and therefore maybe we would put a little bit more cost into some of those large, high potential markets that Steve was talking about. The other main driver is then profit-related bonuses that we would pay. They are about 30% of the profit after that cost base.

Edward Donoghue: Great. Gentlemen, thank you very much. Enjoy the summer.

Kelvin Stagg: Thank you, you are welcome.

Steve Ingham: Cheers, thank you.

Anvesh Agrawal (Morgan Stanley): Good morning, just one question for me. Steve, you mentioned at the beginning of your presentation that it is clearly not clear whether it is a pent-up demand or the underlying improvement. Going forward, what are the things you are clearly watching to gauge that? Let us say, if this momentum continues for another two/three months does this then give you further confidence that we are in the cycle which can be a lot stronger going forward? What is the timeframe that we can judge that on?

Steve Ingham: There is no specific timeframe. I think every month gives you more confidence it is sustainable. Every month we see growth like this, anyway. It is a difficult one. We look at anecdotal evidence so what our clients are telling us. We look at the type of recruitment they are doing. Is it projects? Is it large numbers of people because of strategic initiatives so therefore clearly their confidence is going back to perhaps seeing a brighter future and therefore they are laying down bigger foundations to try to maximise their performance? We look at that and we have had a really good start to our Page Outsourcing business and drive and our investment there. We have landed a lot of very large project or are in the process of landing them. We are very happy with that. That clearly gives us a bit more hard evidence as well. It is fair to say that there is a lot of markets currently impacted by Covid. We have been saying this for a while, have we not, but you would like that the situation with Covid will eventually get a bit better and therefore more and more offices will open. Life will get back to some sort of normal, albeit not exactly the same as it was before and so the reality then is you would like to think more confidence comes back into the client and candidate market and therefore we will see more churn as well.

In answer to your question, what month does it suddenly stop being the result of a pent-up demand and it becomes enduring, I think every month is the answer to that. Every month gives us a bit more confidence that this is sustainable. At the moment it is difficult when we have just finished with our best month of the year, a record month for the Group, to see why that would change just now. However, I am wary that a hell of a lot can change very quickly with the virus and what is happening over the last 18 months.

Anvesh Agrawal: Following on from that, do you think things like furlough has made the difference in the cycle bringing some of the perm demand forward? Or that is not really what is playing out there?

Kelvin Stagg: I think that furlough in certain places helped to support businesses and support them to carry on but remember that apart from the UK which had a full on/off furlough scheme there were not that many. There were partial furlough schemes in Europe but the majority of the people that were on furlough schemes in the UK were probably more blue collar or in leisure, travel and those sort of sectors. Did it make a huge amount of difference to us? I am not sure that it did massively. Certainly, in terms of the industries where you still have people on furlough now, they are not really industries that we would have been doing much work with. I am sure it probably was very good at supporting people through Q2 last year when it was really, really acute but after that we have not really seen a huge amount of difference coming out of the back of the furlough scheme.

Steve Ingham: To confirm, I asked the leader of our UK business how many of our candidates are currently on furlough and he said next to zero. Very, very small number indeed so there is no September impact we need to be concerned about where suddenly a load of candidates are either made redundant or go back to work again. It really is not impactful.

Anvesh Agrawal: Okay, that is very helpful. Thank you.

Steve Ingham: Thank you everyone. Like I say, apologies for bringing this statement forward but I am delighted to say it was for good reasons and a profit warning up, if you like, which is clearly a nice place to be in. Thank you for dialling in this morning. Cheers, everyone.

[END OF TRANSCRIPT]