PageGroup Q3 2021 Trading Update

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Steve Ingham

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Welcome

Good morning everyone and welcome to the PageGroup third quarter trading update. As a result of the quarterly trading being much stronger than expected we brought this call forward. Thank you for joining us at short notice and apologies for any inconvenience this has caused. I am Steven 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.

Q3 Overview

Strong performance, continued investment, profit guidance increased to c. £155m

The improvement in trading conditions we experienced at the end of Q2 continued into the third quarter. Consequently, the Group delivered gross profit of £228.1 million in the quarter. Against 2020 we grew 65.4%. Given the magnitude of the impact of COVID-19 in 2020 we are also comparing our results in constant currencies throughout this presentation to our record gross profit year of 2019. Compared to Q3 2019 we grew 12.9% in constant currencies. This compares to +2% in Q and -10% in Q1.

The quieter summer months of July and August were slightly behind the growth we saw in June of 11%, up 4% and 9% respectively. However as we saw in Q1 and Q2, conditions improved materially in the last month of the quarter and in September we grew 26% versus 2019, our record year. As a result of this improvement in trading conditions, we are today announcing an upgrade in our guidance for the year. We now expect full-year operating profit to be in the region of £155 million.

Reflecting the continued improvement in trading conditions in Q3, we increased our fee earner headcount by 329. This makes a net 627 to the end of September and as such our fee earner headcount is currently down just 4% on the pre-pandemic level at the end of 2019. Our operational support headcount rose by 74 and as such our ratio of fee earners to operational support staff was maintained at 77:23. Overall the Group had 5,772 fee earners and a total headcount of 7,478.

We have a strong balance sheet with net cash at the end of September of around £195 million. This is before the previously-announced dividend payment of £100 million payable to shareholders a week today on 13th October.

Quarterly growth rate improved to +12.9%

Significant improvement in September, +26% vs 2019

As mentioned, we saw a significant improvement in September, which was up 26% on 2019. The growth rate in all of our regions improved in Q3 over Q2 and all regions exited the quarter in September ahead of the Q3 growth rate.

Large, High Potential Markets

Now represent 40% of the Group

Our five Large, High Potential Markets of Germany, Grater China, Latin America, South East Asia and the US, delivered the standout results in the quarter, reaching a new milestone of 40% of the Group collectively. They grew 27% in the quarter and exited in September up 45% on 2019. This was ahead of the rest of the Group which was up 15% in the same month. Four out of these five markets delivered record quarters with Greater China held back by tougher trading conditions in Hong Kong. We now have 2,300 fee earners across these five markets compared to around 800 in 2010 coming out of the Global Financial Crisis.

EMEA

Improvement in trading conditions continued

Looking now at each of our regions, in our largest region, Europe, Middle East and Africa, which represented 46% of the Group, we grew 9.9% on 2019, up from 0.4% in Q2. Against 2020 this represented growth of 45.8%. France declined 8% against 2019, an improvement on the decline of 11% in Q2. September showed further improvement, exiting the quarter up 5%. Page Personnel, representing around 60% of France and with a higher proportion of temporary workers, was impacted more significantly by the lockdowns, down 16% for the quarter. Michael Page was more resilient, up 8%. Germany, the Group’s third-largest market, delivered a record quarter, up 33% with September up 39%. This continued to be driven by our Michael Page Interim business which was up 57% for the quarter and exited in September up 73%. Belgium, Italy and Spain grew 8%, 14% and 22% respectively for the quarter versus 2019, with Germany, Austria and Turkey delivering record quarters despite the quieter summer months.

Asia Pacific

A second consecutive record quarter

In Asia Pacific, representing 22% of the Group, gross profit was up 20.4% on 2019, up from 10.5% in Q2, a second consecutive record quarter. Against 2020 this represented growth of 68.2%. In Asia, 17% of the Group, we grew 29%. In Greater China, 8% of the Group, we grew 21%. Mainland China was up 34% and we exited in September strongly, up 45% on 2019. Hong Kong, where conditions remain more challenging, was up 1% for the quarter, a significant improvement on the decline of 16% in Q2 and returned to growth in September, up 10%. South East Asia delivered a record quarter and was up 29% with Singapore up 15% and the remaining countries in the region up 41% collectively. Japan was up 36%, delivering a record quarter and a significant improvement on the already strong growth of 17% in Q2, exiting in September up 56%. India, where we have around 200 people, despite being significantly impacted by the pandemic, also delivered a record quarter, growing 72% and exited the quarter in September up over 100% on 2019. Australia continued to be impacted by State lockdowns and declined 3% for the quarter. Although we saw an improvement in September, exiting up 7%.

The Americas

Our strongest performing region

The Americas, representing 17% of the Group, has been one of the worst affected regions by COVID but despite this was our strongest performing region. Gross profit in Q3 was up 24.6%

on 2019, a record quarter and a significant improvement on the growth of 7.7% in Q2. This represented growth of 113.4% on 2020. The US delivered a record quarter and grew 28% with a material improvement in September, which was up 61% on 2019. In Latin America gross profit grew 22%, a record quarter up from the growth of 11% in Q2. Mexico was up 18%, a record quarter and exited September strongly up 38%. Brazil was up 27% for the quarter and exited in September up 36%. Elsewhere in Latin America the remaining countries were up 23% collectively for the quarter.

UK

Trading improved as the quarter progressed, September +15% vs 2019

In the UK, representing 15% of the Group, gross profit grew 1.3%, a significant improvement from the decline of 9% in Q2. Against 2020 this represented growth of 94.3%. Conditions improved as the quarter progressed and we exited the quarter up 15% in September. Our Michael Page business was more resilient, up 6% in the quarter compared to a decline of 13% in Page Personnel. Performance was stronger in our regional offices outside of London.

Summary

Strong performance, continued investment, profit guidance increased

I am pleased to report that the improvement in results we saw in Q2 continued into Q3 with the Group reporting growth of 65.4% versus 2020 and 12.9% versus 2019. We exited the quarter strongly with September up 26% on 2019 compared with July and August, up 4% and 9% respectively. This noticeable improvement and record performance in Q3 was seen throughout the Group with 12 countries delivering record quarters and was achieved despite the backdrop of continuing restrictions and lockdowns in many of our markets.

We believe our strategy of maintaining and investing in our platform throughout the pandemic is helping us to achieve these results. Our investments include hiring around 1,000 experienced fee earners since July 2020, rolling out new technologies globally, such as Customer Connect, our new Salesforce-based CRM system. New innovation such as our Page Insights data intelligence tool, as well as diversity and inclusion and strategic engagement tools to ensure our culture resonates and is attractive to our people and potential new employees.

Reflecting the continued improvement in trading conditions in Q3, we added a net 329 fee earners in the quarter, making a net 627 this year. We have added around 600 experienced hires so far in 2021 which complements the around 400 experienced hires we added in the second half of 2020. Our fee earner headcount is currently down just 4% on the pre-pandemic level at the end of 2019. We are the clear leader in many of our markets with a highly experienced senior management team which we retained in 2020 and 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.

Looking ahead there continues to be a high degree of global macroeconomic uncertainty as COVID-19 remains a significant issue and restrictions remain in a number of the Group's markets. Additionally, there is further uncertainty regarding the pace of clients' offices reopening, challenges in global supply chains and the inflation outlook. However, the strength of our performance in Q3 and notably in September has further increased our confidence in the outlook for the year. Therefore, we now expect full-year operating profit to be in the region of £155 million. Kelvin and I will now be happy to take any questions you may have.

Q&A

James Rose (Barclays): Good morning, I have got three please. The first is on the really strong growth rate you have seen in September. What do you think explains that? Is it any particular work or specialism? What is your view on what explains it and do you think it is sustainable going into the fourth quarter? Second is on supply chain shortages and manufacturing disruptions. How has that impacted the Group? Then thirdly, are there any differences between the temp side and the perm side which particularly stand out to you? Thanks.

Steve Ingham: The sustainable one is a difficult question to answer because clearly I would have to predict various economic factors and that is quite challenging. However, at the moment it feels like it is certainly sustainable in the short-to-medium term as our forward-looking KPIs still remain positive as we go into the fourth quarter. How do I explain September? Obviously we think we have invested well, and I have just said that, in hiring a lot of experienced people which we took advantage of literally from July of 2020. I think that probably was looking back a smart move. What is happening is that a lot of candidates have definitely reflected on their organisations, the culture of their organisations they are working for, how their organisations reacted to COVID and did they keep in touch. Did they not? Did they make them feel secure or insecure? Are they doing the right strategic things? Do they have the right approach to diversity and inclusion, CSR, ESG, etc? If they did not, then they are doing something about it. There are a large number of candidates on the move and there is high demand from clients as they recover from the pandemic. There is a huge supply and demand which benefits us.

Why, in particular? Of course we would love to think we are taking market share from the obvious competitors, some of which I am sure are doing well as well. The main competitor we are definitely taking market share from are the clients themselves. Clients and their resourcing departments, talent acquisition or whatever they call it, are definitely our biggest competitor and they are struggling to hire people. As yet, I have struggled to come across a company either in or outside of work that has not told me they have got staffing issues at the moment and that they are struggling to fill jobs. That is playing to our strengths. While they are focused on doing whatever they do, we are focused on making sure that we can find necessary candidates to fill roles and we are largely better than our clients at doing it. We are successfully filling jobs they cannot fill. That helps as well because we are seeing some wage inflation where there are particular hot points of candidate shortages. We are definitely seeing a bigger gap between the salary that a candidate comes to us with and the salary that they are offered by a client. We bill on the salary offered obviously or the one that is accepted and so that is benefitting us. We are starting in some places to see as well a bit of fee inflation. You can imagine during 2020 when clients no doubt were negotiating with us they were probably tougher than they can afford to be today with candidate shortages. All of those things I suppose explain September.

Why does September look so remarkable against the other two months in the quarter? I largely put that down to the summer and September is notoriously one of our biggest months of the year. It really follows June and it is always a competition most years as to whether March, June or September will be the biggest. That is to do with a lot of holidays and all sorts of things around what we have got, which is a very global business. Yes, it looks good going into Q4 and KPIs support it being reasonably sustainable.

Regarding the supply chain, again that tends to create more demand for candidates. As yet, what we are seeing is certainly some issues in the heavy manufacturing/engineering fields. I was talking to the leader in our German business and they can see that some of the bigger, heavier industries are definitely seeing some issues with supply chain and therefore those businesses are struggling to perform at the level they would want to. Certainly, if you are going to order a new car right now then be prepared for a wait because you probably will not get a supply for at least six months. That must be impacting their demand. Fortunately for us in Germany we are very much technology-driven and certainly also we have specialist businesses that do logistics and supply chain. At the moment those businesses are thriving, as you can imagine.

Temp versus perm, I think in the largest temp businesses that we have got, which would be France and the UK, yes, our temp businesses are not performing. Our lower-end temp businesses are not performing like our perm businesses and they reflect where offices are open or not open. The more people get back to the office, the more clients are likely to hire junior temps. This is in contrary to how we are performing at the high end for contractors or temps, depending on the terminology in different markets, because at the high end, particularly in technology, actually we are doing very well. It would match or even in some cases outstrip our performance in perm. However, low end temp particularly in the large business we have in France and the UK whilst growing and starting to pick up because more and more clients' offices are opening, they are still comfortably behind the perm businesses.

James Rose: That is great. Thanks very much.

Hans Pluijgers (Kepler Cheuvreux): Good morning gentlemen, a few questions from my side. First of all, coming back on the wage inflation you already mentioned, could you give maybe some more flavour on which areas you are really seeing it and which regions? Secondly, two questions on productivity and fee earners increase. You have hired quite somewhat more experienced persons so what is your strategy going forward there? Are you still focused mainly in hiring in the coming quarters for more experienced personnel? Could you give maybe some guidance on what you expect to hire for Q4? Secondly on productivity, 20% increase in productivity compared to 2019. Do you believe that level is sustainable from all the investment you have been doing or do you expect that that gain will level off or maybe there are still some additional benefits you can see? If you could give maybe some indication on that? Thank you.

Steven Ingham: Wage inflation really reflects where we are performing highest. First of all, the way we measure it is what a candidate who comes to us looking for a job is currently earning and what they get offered by a client. That is not I do not think what really economists would call wage inflation. We cannot really measure that because clearly there are a lot of people that are not looking for jobs at the moment. We do not see their salaries change. We cannot measure that. What we are seeing is a bigger gap and wherever you see us growing strongest you can assume that the wage inflation is greatest. I have not spoken to them recently about this specific subject but I am sure in India where we are growing at

100% versus 2019 there is a bigger gap between what a candidate is earning when they come to us and what the candidate gets offered by a client. I can tell you that certainly in the field of technology, which is our second-biggest specialism outside of accounting, we are seeing particularly in that area, in digital and any specific jobs that are really hard to find the candidates, we are seeing that bigger gap. We are certainly seeing candidates getting more than one offer, which we hope that both offers or more are through us. However, typically then a client may be forced into a position of offering a bit more as well to attract them and tempt them. We are also seeing what we call buyback which is where a client who regrets somebody resigning then desperately tries to keep them and pushes their salary up. Then obviously the client who is offering them a job has an opportunity to offer higher. That is sometimes happening as well. These things cause that wage inflation which of course we like.

On productivity, is it sustainable? Yes, I think amongst the existing people it definitely is. For example, the 600 experienced hires that we have taken on this year they will not be fully productive yet. Cleary the 200 we have just taken on in the third quarter will not be. There is still room we believe for that productivity to continue. For everyone, not just you Hans, we do intend to do a strategic update to the market later in the year. We have not organised a specific date but it could well be early December, where we will go into this in a bit more depth, as well as many other things in terms of our strategic moves. However, there is certainly a gap between what those experienced people could be offering in productivity and what they are currently. With the existing people, yes, we do believe it is sustainable. We are obviously going to look at October, November and December, but if growth rates continue then we are going to have to hire more heads in.

This really plays into the second part of your question. Will we continue to hire experienced people? Yes of course we will if we can find them. Going back to India again where we saw extreme growth, we do not really have much competition, which is nice in an economy the size of India but it does mean that we are restricted in the number of people we can find now with competitors that have not already joined us. In addition to that, not only are they more difficult to find but clearly the recruitment market is improving and therefore those that are working for competitors and have experience will be doing a lot better. The chances are if they are doing a lot better they own a pipeline of either temps, contractors or perm placement and that pipeline is now delivering them bonuses or commissions if they are in competitors. Therefore, they are going to be more difficult to attract. You can assume and you have seen that in the third quarter, the proportion of experienced people is coming down slightly. I think it will continue to do so. That is something that will dilute the productivity when you look at the total headcount but with an improving market, productivity also goes up. I cannot predict that but if we do continue to improve, and we have improved by roughly-speaking 12% growth upon 2019 each quarter of this year, then obviously productivity will continue to go up. I hope that answers your questions Hans.

Hans Pluijgers: Yes, indeed. One last question on that one. Could you also give some indication on your hiring plans for Q4?

Steve Ingham: Sure, sorry, yes, you did say. What we have seen so far this year is a fairly typical pattern. What happens is in the first half of the year we largely are reflecting on what is happening in terms of performance. We have hired quite aggressively in the second half of last year so we react to that, induct those people and hopefully they get productive in the first half of the year. We take a view on the second half and how we are performing. Is it improving? Is it not? It was definitely improving. We clearly in large parts of our market are less successful hiring people in July and August. Then September tends to be a big intake, particularly as we start thinking about getting towards the end of the year and preparing for next year. We have to have the firepower to react to the market conditions we are hoping for next year. Clearly with things improving you would expect us to make sure we are prepared for Q1/Q2 of next year by making sure we have got that firepower and therefore are bringing on the necessary fee earners. You can assume with the growth that we have just seen in September that our hiring will increase over Q3. Not significantly because it is difficult to find candidates. Do not assume it is totally easy. We are a recruitment company so I think we will find them but we will hire more fee earners into the business than Q3 but not dramatically.

Hans Pluijgers: Okay, thanks.

Karl Green (RBC): Thanks very much, just a couple of question. One of mine has been largely answered. In terms of where you are seeing your own pricing power increase the most, I am not necessarily expecting you to quantify it but can you indicate how that feels versus previous cycles in terms of the extent to which you are pushing up your own fee rates? Then the second question might be a little bit early but in terms of the expanding energy crises in Asia and Europe, are you seeing any glimmers of opportunities or indeed threats to your business as we see that evolving? Thanks.

Steve Ingham: I will answer the first one and I will leave the second one to Kelvin who is far cleverer than me. In terms of pricing power, again it comes to wherever the hotspots exist and also where we are spot pricing. What I mean by that is that clearly we have some arrangements with clients either because it is large projects, large campaigns or even RPO, where the fee rates are fixed. There is little we can do about that just because we are busier. However, where we are spot pricing, which is where a client gives us one, two, five or ten vacancies for the first time or for a while, then we are obviously now negotiating with them what the rate would be. We will always look at the demand for those candidates. If it is easy to find a candidate and there is no one else that wants them then clearly we are unlikely to be able to insist that we have high fee rates. Whereas if we know the demand is very high and there is a lot of companies out there for the same candidate then we can say, 'This is our fee rate. If you are not comfortable with it or if you are going to try and negotiate us down considerably, then we are just not going to work with you. We will work with those that will.' We do that in a non-arrogant way which is obviously difficult but it is about supply and demand. We are definitely starting to see our fee rates harden.

We always say in response to previous cycles that roughly-speaking our fee rates go up or down by about 10%. I do not mean 10 percentage points of the salary we charge on but actually 10% of the fee rate. If the fee rate was 20% as it is roughly in the UK, then it could go down to 18% in a crisis and it typically goes very quickly back up to 20%. The interesting thing I think when you look over 35 years as I obviously can, our fee rate back 35 years ago pre any technology or innovations was slightly lower than it is today. The answer to that is mix. We charge very different fee rates in different geographies, ranging from mid-teens in our lowest market, which would probably be somewhere in Southern Europe, through to 30% in Japan. Clearly if certain businesses with higher fee rates like Germany and the US are becoming a bigger proportion of the Group then that can also impact where we are averaging on a fee rate. Again maybe in our strategy update later in the year we can go into that in a bit more depth and give you actual numbers to show where we are at in that cycle. However, we are seeing them harden and it is typically in the geographies we are doing particularly well in and in the disciplines we are doing particularly well in.

Kelvin Stagg (Chief Financial Officer, PageGroup): With regard to the short-term energy crisis we are seeing today, I think the short answer is no, we are not seeing any material change to any of the activities we have got going on. However, if I look at that question as slightly more of a medium-term question certainly the move into electrical energy, into renewables is something that we are seeing come out as niche recruitment factors. You could extend that back out into the overall discussion around ESG and we have got a small business in ESG recruitment. We are building that out now and running it as a global discipline. Within that, the environmental part of it and certainly the renewable energy piece is an area that is very specific skills that are short in supply and therefore is something that is pretty attractive to the specialised recruitment area that we deal in. I think there is opportunity there coming down the track. I think there is an ability to leverage our scale and our ability to find candidates that may go into these hard to find roles. However, very specifically on the short-term energy crisis, no, I do not think that is having any material impact.

Karl Green: Okay, thanks very much.

Anvesh Agrawal (Morgan Stanley): Hi, just one question from me and slightly longer-term. If we look at the cycle clearly perm has proven to be a lot stronger than certainly I would have expected at the beginning at the beginning of the cycle. Then this is against a backdrop of this labour market shortage and wage inflation. Is there a feeling that the next cycle turns out to be similar to what you have seen over the last six months in terms of the perm being much stronger if we are in this structurally short labour market? Then what are the signs you would see to confirm that going forward?

Steven Ingham: Tricky question I think and probably not one I can give you the answer to because there are so many things that can clearly impact the answer from inflationary increases to all sorts of other different challenges, political or whatever around the world. If this is the start of a long cycle of course as a perm business our revenues would go up faster than temp competitors because clearly we bill on an entire year. The way that we bill is that we bill a percentage of the year's salary, whereas with temps it is based on a week or a month that the temp or contractor works. Naturally we would continue to increase faster. I do not know, is the answer. I do not know what economic factors are going to influence this cycle. What I can tell you is that we have a track record in many years and in fact in the first few years of my tenure as CEO and also back prior to that if I remember, where we grew every year 30% and for a number of years. Can we grow at that rate again? Who knows? There are just too many factors that can incur.

However, what I would say is this. We highlighted a strategic move to focus our investment into High Potential Markets in 2010. At the time they represented about 10% of the Group. Today they represent 40% of the Group. When I look back in 2010 our third, fourth, fifth, etc largest markets outside of the UK and France were Holland, Spain, Italy and Australia. Today our third-biggest market is Germany, our fourth-biggest market is the US, our fifth-biggest market is China and coming up on the outside are markets like Japan and India. When I last looked they are pretty big economies as well. To me we positioned ourselves well. In discipline terms we have also focused since 2010 where we were both very focused on financial services as well as accounting. Today our second-largest specialism is technology and that is growing the fastest of all of our specialisms, which is great to see. I believe we have a huge future in that market. Then finally back in 2010 we did very little in the area of contracting and that has been a big investment in Germany where we have clearly just put some pretty impressive results in. In Latin America where it is one of the fastest-growing contracting markets and fastest-growing parts of business in Latin America. In China and wherever else we can do contracting. We are not able to do it everywhere.

The investments that we have made we believe position us well for whatever length of time this cycle gives us and however impressive the cycle is in terms of growth because of candidate shortages. I have told you why I think we are well-positioned but I have not told you the prediction for the future. However, I am not that smart.

Anvesh Agrawal: No, it is more of a question of if you see this wage inflation and supply chain shortages, labour shortages becoming more structural then you would imagine it favours perm more than temp. Is that be a wrong hypothesis to have, based on what you have seen so far?

Steve Ingham: No, the real shortage of demand is definitely in specialist roles. A lot of those specialist roles are perm so the answer is yes.

Anvesh Agrawal: Okay, thank you.

Steve Ingham: Thank you for the questions. As there are no further questions, thank you all for joining us at short notice this morning. Our next update to the market will be our fourth quarter trading update on 12th January 2022. Thank you.

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