

SThree (STEM)

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16 March 2020

SThree plc Q1 Trading Update

Net fees flat in Q1 in line with management expectations

SThree plc ("SThree" or the "Group"), the global pure-play specialist staffing business focused on roles in Science, Technology, Engineering and Mathematics ('STEM'), issues the below trading update⁽¹⁾ covering the period from 1 December 2019 to date; financial information relates to the quarter ending 29 February 2020.

Highlights

- Group net fees for Q1 flat, in what is our seasonally quietest quarter
 - Strong growth in Germany, with net fees up 7%
 - Robust growth of 3% in Netherlands with USA flat
 - Growth across Technology, Life Sciences and Engineering
- Contract net fees up 2%, in line with our strategy, now representing 75% of Group net fees (2019: 74%)
- 87% of Group net fees generated from international⁽²⁾ markets (2019: 86%)
- Group average headcount up 5% YoY
- Continued strong balance sheet with net cash at 29 February 2020 of circa £9m

Mark Dorman, Chief Executive, commented:

"We have delivered these results despite a backdrop of significant and increasing global macro-economic uncertainties and challenges. The performance of our businesses in Germany and the Netherlands was particularly impressive and demonstrates the benefits of our strategy, focusing on Contract and STEM across diverse markets. This, combined with the efforts of our employees worldwide, has enabled us to continue to deliver a robust level of net fees despite the wider economic headwinds.

"Whilst the macro uncertainties are increasingly apparent, we continue to invest selectively in our business, reflecting our commitment to building for the future and driving the long-term success of our Group. We remain confident that we have the right strategy, as we are uniquely positioned as the only global pure-play STEM specialist.

"The uncertainties the market faces are, however, potentially very significant, given the fast-developing situation with Covid-19, recent large falls in oil prices, and increasing concerns about global confidence and GDP growth. Notwithstanding this, demand for key STEM skills remains robust."

Reporting structure change

SThree has changed its reporting structure, as shown in the tables below, in line with the updated strategy announced at its recent Capital Markets Day and internal management structures. Going forward SThree will apply the new groupings of DACH, EMEA excluding DACH, USA and APAC, as well as presenting an analysis of net fees by its five key markets: Germany, Netherlands, USA, UK and Japan. On a sector basis, the Energy and Engineering sectors will be reported under Engineering.

Net fees	Q1 2020	Q1 2019	Q1 2020 YOY	Q4 2019 YOY	Q3 2019 YOY	Q2 2019 YOY	Q1 2019 YOY
Management Structure							
DACH ⁽³⁾	£25.2m	£24.2m	+9%	+5%	+8%	+18%	+12%
EMEA excl DACH ⁽⁴⁾	£31.5m	£34.4m	-6%	-5%	-2%	-	+5%
USA	£16.0m	£16.4m	-	+6%	+5%	+10%	+17%
APAC	£2.6m	£3.1m	-15%	+1%	+21%	+25%	-4%
GROUP	£75.3m	£78.1m	-	+1%	+4%	+9%	+9%
Top five countries							
Germany	£23.2m	£22.6m	+7%	+5%	+6%	+16%	+9%
Netherlands	£11.8m	£12.0m	+3%	+4%	+7%	+9%	+13%
UK	£9.7m	£10.6m	-8%	-10%	-8%	-12%	-9%
USA	£16.0m	£16.4m	-	+6%	+5%	+10%	+17%
Japan	£1.5m	£1.7m	-11%	+1%	+82%	+63%	+44%
ROW ⁽⁵⁾	£13.1m	£14.8m	-8%	-5%	-2%	+10%	+10%
GROUP	£75.3m	£78.1m	-	+1%	+4%	+9%	+9%

Division Mix	Q1 2020
Contract	75%
Permanent	25%

Sector Mix	Q1 2020
Technology	46%
Life Sciences	21%
Engineering ⁽⁶⁾	22%
Banking & Finance	10%
Other	1%

Impact of Covid-19

The Coronavirus outbreak continues to develop globally, and it is difficult to predict the potential impact it may have on our business. The Group is continuing to monitor the situation closely and regional management teams are ready to react as developments unfold.

Business performance

Group net fees for the year were flat in Q1, in what is our seasonally quietest quarter. Contract, our more resilient business, grew net fees by 2% and now accounts for 75% of Group net fees. Permanent net fees declined 6% in the quarter, due to weaker performances in Japan, USA and UK. Germany, our largest Permanent market, saw solid growth of 4%, up from Q4 2019 +3%.

DACH saw strong growth in the quarter with net fees up 9%. Germany, which accounts for 92% of DACH, continues to outperform with growth of 7% driven by Technology up 10% and Life Sciences up 12%. All other sectors also grew and the region saw a strong growth in net fees in Switzerland and Austria.

EMEA excluding DACH saw net fees declining 6%, largely reflecting the UK's performance, which was down 8%. As expected, we have begun to see the impact of IR35 prompting change in our client and candidate behaviour in the UK business in the quarter, as decision making processes extend ahead of the April 2020 implementation date. The Netherlands, our largest country in the region, saw growth of 3%, which was impressive given the market backdrop, with notable performances in Engineering and Life Sciences.

Net fees in USA were flat in the quarter and short of our expectations. Life Sciences saw good growth of 14% with Engineering growing 10% and Technology up a modest 3%. This growth was offset by a decline in Banking & Finance with net fees down 38%, broadly reflecting the challenges faced in this sector globally. As a key area of focus for the Group we have continued to invest in the region and are aligning our resources with the best long term opportunities.

Despite a good performance from the Technology sector, APAC net fees declined 15% in the quarter, impacted by several factors including the wildfires in Australia and the outbreak of Covid-19.

Group period end headcount was up 3% with average headcount up 5%, reflecting ongoing investment in Germany and USA offset by reductions in EMEA excluding DACH and APAC.

Balance sheet

SThree remains in a strong financial position, with net cash at 29 February 2020 of circa £9m (28 February 2019: Net debt £12m). The Group has a £50m revolving credit facility ("RCF") with HSBC and Citibank, which is committed to 2023.

Analyst conference call

SThree is hosting an analyst conference call today at 0830 GMT. The details are as follows:

Telephone number: 0800 358 9473

For access to the call please enter PIN: 31046987#

A replay facility will be available for 90 days on 0800 358 2049 Passcode: 301312966#

The Group will issue its trading update for six months ended 31 May 2020 on 15 June 2020.

⁽¹⁾ All year-on-year financial growth rates in this announcement are expressed at constant currency

⁽²⁾ International represents our businesses outside the UK

⁽³⁾ DACH - Germany, Austria and Switzerland

⁽⁴⁾ EMEA excl DACH - UK, Ireland, Belgium, Netherlands, Luxembourg, France, Spain and Dubai

⁽⁵⁾ ROW - All other countries we operate in excluding Germany, Netherlands, UK, USA and Japan

⁽⁶⁾ Engineering now includes Energy, which was previously reported separately. Up-stream oil and gas comprises approximately 10% of the new Engineering sector

- Ends -

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Notes to editors

SThree is a leading international STEM specialist staffing business, providing permanent and contract specialist staff to a diverse client base of over 9,000 clients.

The Group's operations cover the Technology, Banking & Finance, Engineering and Life Sciences sectors. With a multi-brand strategy, the Group establishes new operations to address growth opportunities. SThree brands include Computer Futures, Huxley Associates, Progressive and The Real Staffing Group. The Group has a network of 47 offices in 16 countries, of which 41 are in our international⁽²⁾ markets, with circa 3,100 employees.

SThree plc is quoted on the Official List of the UK Listing Authority under the ticker symbol STEM and also has a US level one ADR facility, symbol SERTY.

Important notice

Certain statements in this announcement are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Certain data from the announcement is sourced from unaudited internal management information and is before any exceptional items. Accordingly, undue reliance should not be placed on forward looking statements.

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