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FINDING THE PEOPLE THE WORLD NEEDS

Interim
Report and
Accounts
2020

SThree plc
("SThree" or the "Group")

FINAL RESULTS FOR THE HALF YEAR ENDED 31 MAY 2020

RESILIENT PERFORMANCE DRIVEN BY OUR UNIQUE FOCUS ON STEM AND FLEXIBLE WORKING

SThree plc, the only global pure-play specialist staffing business focused on roles in Science, Technology, Engineering and Mathematics ('STEM'), is today announcing its financial results for the six months ended 31 May 2020.

FINANCIAL HIGHLIGHTS

	HY 2020		HY 2019		*Variance*	
	Adjusted ***(1)***	***Reported***	*Adjusted* *(2)*	*Reported*	*Movement* *(3)*	*Constant Currency Movement* *(4)*
Revenue (£ million)	**602.6**	**602.6**	653.3	653.3	-8%	-7%
Contract net fees (£ million)	**114.5**	**114.5**	121.1	121.1	-5%	-5%
Permanent net fees (£ million)	**36.7**	**36.7**	41.9	41.9	-13%	-12%
Net fees (£ million)	**151.2**	**151.2**	163.0	163.0	-7%	-7%
Operating profit (£ million)	**13.3**	**13.7**	24.6	23.3	-46%	-49%
Conversion ratio (%)	**8.8%**	**9.1%**	15.1%	14.3%	-6.3% pts	-6.3% pts
Profit before taxation (£ million)	**12.6**	**13.0**	24.0	22.7	-48%	-51%
Basic earnings per share (pence)	**5.7**	**5.9**	13.5	12.7	-58%	-60%
Interim dividend per share (pence)	**nil**	**nil**	5.1	5.1		
Net cash/(debt) (£ million) (5)	**31.0**	**31.0**	(8.0)	(8.0)	-	-

(1) HY 2020 figures include the impact of £0.4 million in net exceptional strategic restructuring income.
(2) HY 2019 figures exclude the impact of £1.3 million in net exceptional strategic restructuring costs and CEO change costs.
(3) Variance compares adjusted HY 2020 against adjusted HY 2019 to provide a like-for-like view.
(4) Variance compares adjusted HY 2020 against adjusted HY 2019 on a constant currency basis, whereby the prior financial year foreign exchange rates are applied to current financial year results to remove the impact of exchange rate fluctuations.
(5) Net cash/(debt) represents cash and cash equivalents less borrowings and bank overdrafts and excluding leases.

HALF-YEAR HIGHLIGHTS

- Resilient net fees performance, underpinned by our strategy
  - Group net fees for H1 down 7%* YoY, with Q2 down 12%*, impacted by COVID-19
  - Contract H1 net fees down 5%* (Q2 down 11%*), representing 76% of Group net fees (HY 2019: 74%)
  - Geographically diversified with 88% of Group net fees generated from international markets (HY 2019: 87%)
- COVID-19 was primary driver of profit impact, alongside strategic investment for the future
  - Thoughtful management of headcount enabling market share gains in the Netherlands, Germany and USA
  - Investment in technology and infrastructure enabling more effective operation in future
  - Profit impact offset by significant cost management initiatives implemented
- Initial response to COVID-19 executed swiftly to mitigate impact and capitalise on opportunities
  - Workforce moved rapidly to remote working, with a focus on adjusting and adapting to effective operation irrespective of location
  - No staff furloughed in a number of key regions
  - Support provided to candidates, clients and other key stakeholders
- Strong financial position
  - Strong balance sheet, with net cash at 31 May 2020 increased to £31.0 million (31 May 2019: net debt £8.0 million) and immediately accessible liquidity of £136.0 million
  - Access to RCF and CCFF available if required

** In constant currency*

Mark Dorman, CEO, commented:
"These results are a story of two very different quarters and how resilient this business is in the most extreme external environment. It has been a time of much change and volatility, however two things that have not changed throughout are our purpose and our strategy.

Our purpose of "bringing skilled people together to build the future" has never been more relevant and we have the right strategy, positioned between the accelerating secular trends of STEM and flexible working. As we continue to make targeted investments in the Group, we are positioning ourselves to best capitalise on this growing opportunity in the future. As a direct result of our strategy, I have been pleased to see the Group deliver a resilient net fees performance. Despite all the challenges faced we have continued to take market share, increased our operating capabilities, and strengthened relationships with candidates and clients.

Our decision making is guided by our purpose. Already we have seen our teams supporting many customers directly involved in tackling the crisis; from those involved in assuring the quality of ventilators to those leading the vaccine research efforts. We are delighted to be placing many of the people who will be crucial in providing a better future for us all.

Whilst times ahead remain uncertain, we have a strong financial position, a great opportunity, and we are united behind our strategy which will guide us through the second half and beyond."

SThree is hosting a webinar for analysts today at 09:30 BST. If you would like to register for the webinar please contact SThree@almapr.co.uk

SThree will issue its Q3 trading update on 14 September 2020.

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Notes to editors

SThree is the only global pure play specialist staffing business focused on roles in STEM (Science, Technology, Engineering and Mathematics). It brings skilled people together to build the future through the provision of specialist Contract and Permanent services to a diverse client base of over 9,000 clients. From its well-established position as a major player in the Technology sector, the Group has broadened the base of its operations to include businesses serving the Banking & Finance, Energy, Engineering and Life Sciences sectors.

Since launching its original business, Computer Futures, in 1986, the Group has adopted a multi-brand strategy, establishing new operations to address growth opportunities. SThree brands include Progressive, Computer Futures, Huxley Associates and Real Staffing Group. The Group has circa 3,000 employees in sixteen countries.

SThree plc is quoted on the Official List of the UK Listing Authority under the ticker symbol STEM and also has a USA 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. Data from the announcement is sourced from unaudited internal management information. Accordingly, undue reliance should not be placed on forward looking statements.

CHIEF EXECUTIVE OFFICER'S STATEMENT

A story of two parts

We set out in Q1 delivering and investing in line with the strategy which we had set out at our Capital Markets Day in November 2019 and were executing as expected. As we indicated in our Q1 update on 16 March we had already begun to see macro uncertainty as a result of the impending global pandemic. As we entered Q2 the COVID-19 pandemic, monitored closely by our crisis management team, accelerated, bringing with it unprecedented uncertainty which required rapid adjustments to our operations to enable us to navigate the new economic landscape.

The COVID-19 health crisis has altered the course of individuals, businesses and societies across the globe. Governments have taken unprecedented action to prevent the further spread of the virus with responses and impact differing significantly by region, country and city. These public health responses and other government actions have led to dramatic economic declines across the globe, the nature and speed of which has never been seen before.

At its core this remains a health crisis, which has spawned an economic crisis. As a consequence, there is no global peacetime equivalent as governments quickly intervene to safeguard public health and then subsequently provide fiscal and monetary stimulus to the economy. The wide and varied nature of these, at times, conflicting actions has caused volatility that has no modern day parallel. The road to recovery will not be a straight line, but a transition, with businesses navigating this volatility over the period ahead and fundamentally changing for the long term.

There is no doubt that the pandemic has turned working practices on their head and accelerated trends such as flexible working. Considering these changes, we have spent a lot of time during this period speaking to our customers and candidates, understanding their needs and adapting accordingly. Across all sectors, questions have been raised and operations have been remodelled. Businesses know that the world of work has changed and are trying to understand how best to manage the workforce of the future. Supply chains will be rebuilt or adapted for resilience rather than profit. Automation, data and data science will be crucial for all, as computer assisted analysis is accessed to capture ever shifting insights.

SThree is alongside a host of businesses that have experienced unprecedented challenges throughout this period, however we are navigating our course. We are confident that our strategy is the right one: Talented people with STEM skills will be those solving the problems that businesses are facing, and those are the candidates we place. We are focused on coming out of this period in a strong position, continuing to deliver what our customers need both now and in the future, and we are poised to deliver on our strategic ambitions.

Throughout this period and in the journey ahead, SThree's purpose of "*bringing skilled people together to build the future*" has never been more relevant.

Inside our crisis response

In the immediate aftermath of the outbreak we created a framework for the organisation to work with, breaking the crisis down into operational phases each with its own set of priorities.

1. Emergency Response
2. Ongoing Crisis Management
3. Recovery to the Next Normal

The Emergency Response phase began in early March, and we transitioned into phase two in early April. We are now several months into ongoing crisis management which we see continuing for some time.

This remains primarily a global health crisis and as such maintaining the safety of our people, candidates and customers combined with full operational capability of the Group was our primary focus. We acted quickly and efficiently to adjust our ways of working, allowing our entire workforce to continue delivering remotely (at one point 98% of workforce). Alongside the physical change to remote working our businesses also quickly adapted their operational arrangements to respond to the rapidly changing situation. Aware of local measures, they remained focused on helping their customers to achieve their objectives even as these shifted in response to the challenging external environment.

Alongside this, we implemented initiatives to ensure the business remained on a strong financial footing throughout this period and beyond. Underpinning all our decisions is the clear objective to balance the need to secure the short-term financial strength of the Group, whilst retaining the skills, capacity and management capability to fulfil our undimmed strategic ambitions.

Maintaining a strong balance sheet is critical at times of intensified uncertainty; therefore, we took the difficult decision to withdraw the 2019 final dividend of 10.2 pence per share, detailed in the Group Annual Accounts and Report 2019 and Notice of the Annual General Meeting. The Board recognises the importance of dividends to our shareholders and will keep future dividend payments under review.

We reviewed our cost base. Initially, in phase one, we ceased all hiring and have since managed headcount as appropriate to the varied local conditions. We maintained a particular focus on working capital management and all non-essential capital expenditure was postponed, as were all discretionary costs. Salaries of the Executive Directors of the Board and senior executive team, and the fees of the Non-Executive Directors, have been temporarily reduced by 20%, with the Executive Directors also foregoing 2020 bonuses.

SThree welcomed the government support given to businesses globally, taking up the opportunity to defer various tax payments and receiving a reimbursement of wages under the job retention scheme. We have qualified for the UK Government's COVID Corporate Financing Facility ('CCFF'). Under the scheme, we received confirmation that we are eligible to access up to £300.0 million of funding. Of this, we agreed, in consultation with our existing lenders, that the CCFF facility will be capped at £50.0 million. To date we have not drawn this down.

As we continue to navigate through the pandemic we are not waiting for the market conditions to change, but focused on learning to operate better in whatever environment we are in, utilising our agility and expertise to navigate a successful path and grow our market position for the long term.

Supporting our people, clients and candidates

Protecting our people, clients and candidates is key to ensuring that we come out of this crisis stronger and more resilient than ever before. These are the people that will help us shape our business for months and, likely, years to come. Our purpose, “bringing skilled people together to build the future”, continues to be central to everything we do as a business.

The ongoing wellbeing and engagement within our teams is a priority and, as such, we have launched various initiatives to drive engagement and foster a sense of community. Our 'Coronavirus Knowledge hub' is a dedicated space providing materials for learning and development, including guidance on managing remote teams and guidance on remote working for our consultants. Alongside this we have accelerated investment in our digital learning platform to provide learning on demand for all. We have also launched a wellbeing programme called Thrive which is based on the responses received to our recent internal pulse survey and provides time, support and resources to our people to help them look after their wellbeing in four areas; body and mind, self-purpose, personal growth, and financial stability.

Our focus has not stopped at our people - we have provided support and material to help our contractors understand how to remain active with regional, brand-led contractor information hubs set up online to include rolling updates and support.

We have not lost sight of all the hardship that our society and local communities are facing, and we recognise that many of the communities we operate in are experiencing serious challenges. Therefore, in line with the Group's purpose-driven culture, we announced in March an extension to the paid volunteering leave we offer and are encouraging all our staff to make use of this time to safely volunteer.

At a regional level, it is worth highlighting how our teams have gone above and beyond to help many customers directly involved in tackling the crisis. We have seen examples of amazing behaviour, work collaboration, courage and innovation. As an example, our US business worked closely with their client, a major medical devices and protective equipment manufacturer, to place quality assurance and regulatory affairs specialists who ensure the medical devices, ventilators and protective equipment used in defence against COVID-19 are safe to use. Our DACH business explored new opportunities within Life Sciences and continues to work with their clients to place the experts who are leading the research efforts to find a vaccine for COVID-19. Within the UK we have closely collaborated with the NHS, for whom at the peak of the crisis we supplied nearly 300 contractors. We have been placing candidates with Business Intelligence experience to manage clinic systems and process electronic recovery information for front line clinicians, ultimately helping the NHS make well-informed decisions in the COVID-19 response.

Testament to the strength of the support we have given to our clients and candidates, we’ve recorded an impressive improvement in Net Promoter Score (‘NPS’) across the business, from both clients (up 7 points to a score of 37) and candidates (up 4 points to 52). This demonstrates the value our customers attribute to our ongoing support and the flexible approach we have taken to meet new or changed demands.

Performance update

As previously mentioned, H1 trading performance is a story of two quarters and can be seen to change rapidly between Q1 and Q2. In the first quarter, the Group recorded net fees of £75.3 million in line with expectations; a robust performance delivered despite a number of macro-economic headwinds.

In Q2, as the COVID-19 pandemic accelerated and the intensity of the economic toll this would take became clearer, businesses across the globe took action, significantly impacting the aggregate demand for staffing. Despite this SThree saw Group net fees decline only 12%* year-on-year, to £75.9 million in Q2. This resilient performance is largely thanks to the nature of Contract work, the majority of the Group’s activity, which naturally insulates net fee income over the short term. Taken together over the first half Group net fees were 7%* down year-on-year, to £151.2 million. Contract, our strategic focus, declined by 5%* in the first half and now represents 76% of Group net fees.

Adjusted operating profit for the period was £13.3 million which is down against prior year (HY 2019: £24.6 million). The decline was driven primarily by the impact of COVID-19 alongside our strategic decision to invest for the future; balancing the current economic headwinds with the acceleration of the long term secular trends of STEM and flexible working, we are implementing programmes to right-size our cost base, whilst continuing to make targeted investments and bolstering the strength of our core platform. Average Group headcount was up 2% in the half, with net investment in DACH and the USA offset by reductions in other regions.

Performance across markets and geographies varied hugely depending on government responses and the demand patterns of the niches within sectors. An example of this is the need for supply chain expertise among pharmaceutical manufacturers who are rapidly scaling up output for vaccines and treatment, whilst roles needed for planned surgeries have decreased. Within Technology, digitisation has been a key driver – both in the immediate term, as forced by the pandemic, but also for the longer term as part of wider business plans**.

This has played out within our regions. The Netherlands and the UK were more challenging with various factors impacting performance, including certain niches that have been impacted by the pandemic. The USA and Germany remained robust with the USA benefitting from high demand for Quality Assurance in the drugs market and digital transformation projects, and Germany seeing a strong performance in Infrastructure and Software Development.

** In constant currency*

Our view of the future

Our immediate priorities

Whilst the global fight to contain the virus continues we will be in our ongoing crisis management phase, volatility will persist, and demand will be uncertain as businesses deal with the impact of government responses and adapt to this new environment.

As such, it remains impossible to know exactly what lies ahead while the pandemic continues, and regions deal with their current outbreak level. It should also be noted that as we have seen with the “R” rate in Germany and a number of other regions, recovery is not necessarily a straight line. Notwithstanding the lack of clarity on what the future looks like, the Group will continue to engage with candidates and with clients to deeply understand trends that create products of the future. Alongside this, we will drive operational improvement within our core businesses, focused around people, process and technology, whilst of course, underpinned by disciplined cost management.

It is clear that this crisis will have a lasting impact, and SThree is therefore working to ensure we are best positioned to work in the new world. This includes learning to operate in a blended environment of working, navigating our own recruitment and onboarding, investing in learning and development. A good example of how we are facilitating this is in Germany, where we did not furlough any of our staff. Whilst the office in Germany has been open for some time, the team there are being encouraged to adapt and adjust to working effectively, irrespective of where they are located. Alongside these operational changes, we are improving the way we capitalise on our data, investing in virtual interview and placement solutions and increasing knowledge sharing across our global business. We are confident that we have the right ingredients to steer the Group effectively in the new world of work.

Secular trends

As market trends shifted in response to COVID-19 outbreak, the criticality of STEM skills has been highlighted. In the medium to long term the pandemic has accelerated the demand for STEM skills and digital transformation is a priority for every business and every sector. Alongside this, the seismic shift in working practices has changed the workplace and many businesses are adopting these for the long term, with the notion of flexible working and flexible workforces of the future entering the lexicon of business as a key priority. SThree sits at the centre of these two long term secular trends; STEM talent and Flexible Working, that have now been accelerated as a result of this crisis.

We have been engaging with our customers in critical conversations with them to better understand their needs and priorities, for now and into the future, to help them drive their businesses forward. Many customers are discussing the ability to widen the pool of talent with remote working, and the fact that being present on site will not be required*. Our scale, local knowledge and true expertise in STEM positions us well to help those businesses with whatever their staffing needs may be. In times like this there is even more value in our niche market approach and knowledge base.

Investing in the future to drive our strategy

Our strategy is absolutely the right one; our focus on STEM and flexible working has underpinned our resilience and will continue to do so.

Notwithstanding the current uncertainties, our focus on building for the future has not wavered, and we are investing in the areas that we are confident will drive growth. This includes our own digital enablement, continuing our use of data and insights to drive the business, investing in the right tools and technology, continued learning and development and being judicious about where we focus our headcount. We came into this period selectively investing in the right markets and will continue to do so to position us for the future.

Summary

Whilst this has undoubtably been one of the toughest times, not just for our Group but many others, we are pleased with the resilience our business has shown. I would like to thank the spirit and dedication of our colleagues, who, through much adversity, have truly delivered in the period, driving the results we have announced today.

As a purpose driven organisation our work is aimed at changing people’s lives for the better and this is something that motivates my colleagues and I on a daily basis. We are helping build communities of talent and future-proofing people’s careers, and we look forward to providing our customers with their most valuable asset in the period ahead.

Throughout this period, our focus has remained on positioning the business to achieve our strategic ambitions, and whilst the route we take to get there may be different from what we expected, our ultimate aim remains the same. As a strong business with a solid financial position, an excellent team, the right strategy and buoyed by the strength of the secular trends we play upon, we are confident we will exit this crisis well positioned to make the most of the opportunities ahead of us.

***SThree's customer insights research, May 2020*

GROUP OPERATIONAL REVIEW

Overview

The Group's robust performance in Q1 was outweighed by the impact of the COVID-19 pandemic in Q2 across all our territories and sectors. The Group is well diversified, with international operations which now account for 88% of net fees. Performance has been varied across different regions, sectors and within specific niches. From a regional perspective the USA and Germany in particular continue to perform robustly, delivering creditable results in the first half.

Our strategic focus on Contract has provided the business with greater resilience in more uncertain economic conditions. However, DACH, our largest Permanent market, proved resilient with net fees down 1%*.

Adjusted operating profit was down 49%* year-on-year as we continued to make targeted investments and bolstered the strength of our core platforms with an eye on the medium to long term, whilst implementing programmes to right-size our cost base.

Whilst broader market conditions are challenging, the STEM markets remain relatively robust and we are confident we can maximise our opportunities with selective headcount growth.

In what has been a challenging period for our teams the quality of our management and increasing expertise in our niche markets is driving us forward on our journey to become the number one STEM talent provider in the best STEM markets. We are committed to ensuring that SThree is well positioned over the long term and are confident we can continue to exploit the accelerating secular trends of STEM and flexible working across global markets and deliver our long-term ambitions.

Group

Net fees by division

	Growth year-on-year *(In constant currency)*			HY 2020 Mix	
	Contract	Permanent	Total	Contract	Permanent
Q1 20	+2%	-6%	0%	75%	25%
Q2 20	-11%	-17%	-12%	76%	24%
HY 20	-5%	-12%	-7%	76%	24%

Breakdown of net fees	HY 2020	HY 2019	FY 2019
Geographical split			
EMEA excluding DACH	40%	43%	41%
DACH	33%	31%	32%
USA	24%	22%	23%
APAC	3%	4%	4%
	100%	**100%**	**100%**
Sector split			
Technology	45%	45%	45%
Life Sciences	22%	19%	20%
Engineering	22%	21%	21%
Banking & Finance	9%	12%	11%
Other sectors	2%	3%	3%
	100%	**100%**	**100%**

Business Mix

Contract is well suited to our STEM market focus and geographical mix and it remained the key area of focus and growth throughout the period.

Our Contract business has proved resilient in the current trading environment, which is a testament to our strategy, with net fees down 5%* in the period. Average Contract sales headcount was flat in the period, however our DACH and USA regions saw investment in heads in the period. Contract now accounts for 76% of Group net fees. Contract NFDR is up 2% YoY with Contract margin at 20.3% up from 19.8% in H1 2019. The period ended with contractor numbers of 8,875, down 17% year-on-year.

Our Permanent business saw a larger impact from the current trading environment with net fees down 12%* in the period (Q2 down 17%*). DACH, our largest Permanent market was down 1%* in the period, in part due to Q1 performance with Q2 down 9%*. USA net fees were down 10%* and Japan down 24%*. We have seen an increase in Permanent average fee up 3%* YoY in the period. Average Permanent sales headcount was down 1%, however we have invested in our key Permanent markets and will continue to do so strategically.

** In constant currency*

Operational review by reporting segment

EMEA excluding DACH (40% of Group net fees – £60.5 million)

Net fees by division

	Growth year-on-year *(In constant currency)*			HY 2020 Mix	
	Contract	**Permanent**	**Total**	**Contract**	**Permanent**
Q1 20	-3%	-19%	-6%	85%	15%
Q2 20	-16%	-25%	-17%	86%	14%
HY 20	-9%	-22%	-12%	85%	15%

EMEA excluding DACH region is our largest region comprising businesses in Belgium, Netherlands, Luxembourg, France, Spain, UK, Ireland and Dubai.

The results for EMEA excluding DACH largely reflected the UK's challenging performance. The UK was down 14%* in H1 with Q2 down 19%* year-on-year. The planned impact of IR35 had some negative impact on client and candidate behaviour during Q1, although this measure was ultimately delayed by a year as the pandemic accelerated during March. All sectors saw decline in net fees with Technology down 8%* and Banking & Finance down 47%*. Contract performance for the UK was down 13%* in the period, however, Life Sciences saw a more resilient performance with net fees remaining flat*. Our Permanent business in the UK was down 20%*.

The Netherlands, our largest country in the region, delivered a resilient performance in H1 with net fees declining 5%*, albeit with a 12%* decline in Q2. Notable performances were delivered in Life Sciences, up 10%* (Q2 flat*) driven by increased placements across Quality Assurance and Medical Devices, and across Engineering, with our particular focus on Manufacturing, High Tech and Chemicals. Contract was down 3%* in the period with Permanent down 19%*.

Dubai performance was strong in the period with net fees up 14%* driven by Banking & Finance up 36%*. France saw net fees decline for the period with net fees down 19%*.

Average sales headcount for the region was down 10% with period end headcount down 15%.

DACH (33% of Group net fees – £50.1 million)

Net fees by division

	Growth year-on-year *(In constant currency)*			HY 2020 Mix	
	Contract	**Permanent**	**Total**	**Contract**	**Permanent**
Q1 20	+10%	+7%	+9%	64%	36%
Q2 20	-9%	-9%	-9%	67%	33%
HY 20	0%	-1%	-1%	66%	34%

DACH region is our second largest region comprising businesses in Germany, Switzerland and Austria, with Germany accounting for 92% of net fees.

Performance in the region was strong in Q1 with growth of 9%*. Q2 was impacted by COVID-19, however, the region delivered a resilient performance with net fees down 9%* against strong comparatives, with H1 down 1%* as a result. Germany net fees were down 2%* in the period. We saw an outstanding performance from Switzerland with net fees up 46%* in the period. The region saw Contract growth in Life Sciences up 18%* with growth in Germany and Switzerland. There was a strong performance in our Permanent Technology sector, up 7%* driven by Germany.

Average sales headcount was up 12% with period end headcount remaining flat.

USA (24% of Group net fees – £35.4 million)

Net fees by division

	Growth year-on-year *(In constant currency)*			HY 2020 Mix	
	Contract	**Permanent**	**Total**	**Contract**	**Permanent**
Q1 20	+3%	-11%	0%	81%	19%
Q2 20	0%	-10%	-2%	79%	21%
HY 20	+1%	-10%	-1%	80%	20%

The USA is the world's largest specialist STEM staffing market and is our third largest region. The region remains a key area of focus for the Group and we will continue to strategically invest in the region as we align our resources with the best long-term opportunities.

Our US business showed its resilience in the half, with strong growth across Life Sciences up 13%* (Q2 up 11%*) and Technology up 4%* (Q2 up 5%*). The USA is a good example of the importance of investing in the right vertical niches and understanding customer needs. Thanks to a keen focus on this strategy the region benefitted from increased activity in Quality Assurance, as more new drugs were manufactured, and seen good growth in tech skills that support digital transformation such as Mobile Applications and Software Development, in line with the changing customer needs

Contract net fees in USA performed very well with net fees up 1%* year-on-year. Our largest sector, Life Sciences, grew 13%* with Technology up 3%*. We have invested in our Contract business with average sales headcount growing 18% year-on-year and period end headcount up 3%. Net Fees per Day Rate ('NFDR') increased by 8%* year-on-year, as we focused on higher margin and higher salary roles.

Permanent net fees declined year-on-year overall, however we saw growth in our Life Sciences busines up 12%* and Engineering up 8%*. This was offset by a decline in our Banking & Finance sector. Year to date average headcount increased by 6% year-on-year with period end headcount down 10%.

APAC (3% of Group net fees – £5.2 million)

Net fees by division

	Growth year-on-year *(In constant currency)*			**HY 2020 Mix**	
	Contract	**Permanent**	**Total**	**Contract**	**Permanent**
Q1 20	-11%	-16%	-15%	34%	66%
Q2 20	-31%	-41%	-38%	35%	65%
HY 20	-22%	-30%	-28%	35%	65%

Our APAC business principally includes Japan, Australia and Singapore. APAC represented 3% of Group net fees in the period, a slight decrease from 4% at the end of 2019.

APAC net fees declined in the period as the region was impacted by both the Australian wildfires and the earlier impact of COVID-19. Total net fees were down 28%* with Q2 down 38%*.

Contract net fees declined 22%* in the period with Engineering down 59%* and Banking & Finance down 36%*. Contractors declined 33% in the region with NFDR down 5%* year-on-year.

Permanent net fees in the region declined 30%* with Japan, our largest country in the region, down 24%*. All sectors declined for the region.

Average headcount was down 20% year-on-year with Contract down 38% and Permanent down 10%. Period end headcount was down 19%.

GROUP FINANCIAL REVIEW

The COVID-19 outbreak developed rapidly during 2020, with a significant number of infections in countries where SThree operates. Measures taken by national Governments to contain the virus have affected economic activity. The impact on the Group's performance and financial results was significant within the six months ended 31 May 2020.

Income statement highlights

Revenue for the half year was down 7% on a constant currency basis to £602.6 million (HY 2019: reported £653.3 million) and down 8% on a reported basis. On a constant currency and reported basis, net fees decreased by 7% to £151.2 million (HY 2019 £163.0 million). The Group's robust performance in Q1 was outweighed by the impact of the COVID-19 pandemic in Q2 across all the Group's territories and sectors. The aggregate demand for staffing in the second quarter of the year was significantly less than what would normally be expected, with notable spikes and troughs across different markets and industries. Overall net fees margin was 25.1% (HY 2019: 24.9%), driven by geographical mix and moving to placing higher salary roles. The Contract margin increased to 20.3% (HY 2019: 19.8%). At the end of the reported period, Contract represented 76% of the Group net fees in the period (HY 2019: 74%).

Operating expenses decreased by 1.6% on a reported basis, compared to the prior-year period. It was mainly driven by a significant slowdown in the Group's operations caused by the COVID-19 crisis, leading to a decline in commissions/bonuses and a pause in advertising campaigns, a temporary reduction of 20% in salaries of the senior executive team, and the impact of Government job retention support schemes in selected countries.

Impact of COVID-19 on items of income/(expense):

COVID-19 had implications on certain items of income and expense in the Group condensed consolidated interim financial statements, affecting the profit before tax for the six months ended 31 May 2020. This includes income from the recognition of government assistance provided to SThree, impairment charge recognised for underperforming internally developed assets, reduction in share-based payment charge for unvested Long Term Incentive Plans affected by the revised profit estimates, and increase in loss allowance for the Group book of trade debtors due to credit risk deterioration.

- **Government support schemes**

Various national governments have announced measures to provide both financial and non-financial assistance to the disrupted industry sectors and the affected business organisations.
During the period, the Group took advantage of job retention schemes launched by the UK and other national Governments, whereby a portion of salaries was reimbursed for furloughed staff. In H1 2020, the Group recognised a total benefit, including the associated payroll savings, of £0.7 million. The compensation was presented as a deduction in reporting the related staff expense.
We expect to recognise further savings of around £1.4 million in H2 2020, bringing the total compensation plus savings to £2.1 million by the end of the financial year.

- **Impairment of non-financial assets**

We re-visited forecasts of realisable benefits and other assumptions such as SThree cost of capital, used to determine the recoverable amount of the Group's intangible assets. In the light of increased risk, uncertainty, and reduced economic activity caused by COVID-19, which in turn resulted in a decline of demand for SThree services and increase in operating costs, fair values of certain internally developed assets were assessed as no longer recoverable. Within the six months ended 31 May 2020, the impairment charge of £34k was recognised (HY 2019: £nil).

- **Reduction in share-based payment charge**

Due to COVID-19 we revised the full year estimate of the Group's adjusted PBT for the financial years 2020 to 2022. The adjusted PBT is one of the key assumptions used to determine share-based payment charge attributable to Long Term Incentive Plan ('LTIP'). Based on the revised PBT forecast, certain performance conditions for unvested LTIP are no longer achievable. Accordingly, the share-based payment charge recognised in H1 2020 amounted to £0.5 million (HY 2019: £1.7 million).

- **Trade debtors – increase in expected credit losses**

There has been a moderate increase in credit risk (risk of default) for the Group book of trade debtors as a result of COVID-19. The Directors adjusted the forward-looking information (including macro-economic information) considered when measuring expected credit losses for the trade debtors. This was partially offset by several credit control initiatives undertaken by the Group to preserve cash and identify any early signs of clients' credit deterioration or credit disputes for immediate resolution. Overall, the Group recognised the expected credit losses of £1.3 million (HY 2019: £1.0 million).

Exceptional items

In line with the Group's prior year practice and accounting policy, the following items of material or non-recurring nature were excluded from the directly reconcilable IFRS measures.[2]

1. Support function relocation - This is a legacy programme, which was partially funded by a grant receivable from Scottish Enterprise. The Group is entitled to the grant over several years until 2021, subject to the terms of the grant being met. In H1 2020, the Group recognised £0.5 million in grant income (HY 2019: net exceptional costs of £0.1 million, comprising £0.5 million in personnel and property costs less government grant income of £0.4 million).
2. Senior leadership restructuring - In 2019, several key changes were made to the senior leadership structure within EMEA excluding DACH region. In HY 2020, true-up of £0.1 million (HY 2019: £nil) in remaining charges was added to the overall cost of the senior leadership restructuring and reflected in the 2020 Interim Report.
3. CEO change - In the prior period, operating expenses classified as exceptional also included costs of £1.2 million associated with the departure of the previous CEO and the appointment of the new CEO, Mark Dorman.

Net finance costs

Net finance costs increased to £0.7 million (HY 2019: £0.6 million), mainly due to higher level of gross finance debt and the adoption of new standard IFRS 16 on leases.

Income tax

The tax charge on pre-exceptional statutory profit before tax was £5.1 million (HY 2019: £6.5 million) for the first half of 2020, representing an effective tax rate ('ETR') of 39.7% (HY 2019: 27.5%). The ETR on post-exceptional reported profit before tax was 40.4% (HY 2019: 27.0%). The Group's ETR primarily varies depending on the mix of taxable profits by territory. In addition to this, the extent to which tax credits on loss-making businesses are recognised can have a material impact. The COVID-19 crisis has increased the ratio of operating losses as a proportion of the absolute profits and losses of the Group. This, together with the anticipated reduction in Group results, means that the non-recognition of tax credits on loss-making businesses is the main factor in the increase of the Group ETR from the previous year.

The Group is also affected by the European Commission's state aid investigation into the UK's controlled foreign company legislation. We continue to note this as a contingent liability.

Foreign exchange exposure

For HY 2020, the year-on-year movements in exchange rates between Sterling and the Euro and the US Dollar (the main functional currencies of the Group) provided a moderate net headwind to the reported performance of the Group. The exchange rate movements decreased our reported HY 2020 net fees by approximately £1.0 million and operating profit by £0.2 million.

Overall, the reported profit before tax was £13.0 million, down 43% year-on-year. The adjusted profit before tax ('PBT') was £12.6 million down 48% year-on-year (HY 2019: reported £22.7 million and adjusted £24.0 million). The 'adjusted' PBT excludes net

[2] Details of the Group alternative performance measures, their description and full reconciliation to IFRS line items, have been covered in note 15 of this Interim Report.

exceptional income of £0.4 million that was recognised in the current period in respect of the government grant income on the relocation of support functions to Glasgow (HY 2019: net exceptional cost of £1.3 million, representing CEO change cost of £1.2 million plus net exceptional cost of £0.1 million incurred on support function relocation). The operating profit conversion ratio decreased by 6.3 percentage points to 8.8% on an adjusted basis and was down by 5.2 percentage points to 9.1% on a reported basis (HY 2019: adjusted 15.1% and reported 14.3%).

Earnings per share ('EPS')

On an adjusted basis, EPS was down by 7.8 pence, or 58%, at 5.7 pence (HY 2019: 13.5 pence), due to a decrease in the adjusted PBT offset by an increase of 2.1 million in weighted average number of shares. On a reported basis, EPS was 5.9 pence (HY 2019: 12.7 pence), down 6.8 pence (54%). As at 31 May 2020, the weighted average number of shares used for basic EPS was 132.0 million (HY 2019: 129.9 million). Reported diluted EPS was 5.8 pence (HY 2019: 12.2 pence), down 6.4 pence. Share dilution mainly results from various share options in place and expected future settlement of certain tracker shares. The dilutive effect on EPS from tracker shares will vary in future periods depending on the profitability of the underlying tracker businesses, the volume of new tracker arrangements created and the settlement of vested arrangements.

Dividends

Due to the current unprecedented levels of uncertainty, the Board is not proposing to pay an interim dividend (HY 2019: 5.1 pence). The Board recognises the importance of dividends to the Group shareholders and will keep future dividend payments under review. The Board monitors the appropriate level of the dividend, taking into account, inter alia, the strategy for the Group, the achieved and expected trading, together with its balance sheet position.

Liquidity management

On an adjusted basis cash generated from operating activities increased to £37.3 million in the first half of 2020, compared to the prior-year period (HY 2019: £5.6 million on an adjusted basis). It represents the net result of reduced adjusted EBITDA offset by the release of working capital as the business slows, strong action to manage working capital in the face of the COVID-19 crisis, decreased taxes paid and reclassification of rent payments to financing activities under the newly implemented standard, IFRS 16 *Leases*.

In early May, the Group took advantage of the UK and other national Governments' incentive to defer the VAT payments due between 20 March 2020 and 30 November 2020, until future periods between 28 February 2021 to 28 February 2023. In H1 2020, this Government stimulus provided the Group with a short-term cash relief of £5.1 million, while in H2 2020 Management anticipates a further cash relief totalling £4.3 million.

Capital expenditure increased to £2.1 million (HY 2019: £1.2 million). Within the six months ended 31 May 2020, the majority of the capital expenditure was in relation to the roll-out of IT equipment to meet the needs of remote working.

Income tax paid decreased to £5.6 million (HY 2019: £6.3 million), and dividends, being the interim 2019 paid in December 2019, remained largely unchanged at £6.7 million (HY 2019: £6.1 million). During the first quarter, the Group also paid £1.3 million (HY 2019: £0.9 million) for the purchase of its own shares to satisfy employee share schemes in future periods. Foreign exchange had an immaterial impact (HY 2019: positive impact of £0.5 million).

In the first half of 2020, the cash conversion ratio[3] on an adjusted basis increased to 256%, compared to the prior-year period of 44%, reflecting primarily improved working capital. We started the period with net cash of £10.6 million and closed the period with net cash of £31.0 million (HY 2019: net debt £8.0 million).

Borrowings

As at 31 May 2020, the Group had total accessible liquidity of £136.0 million. This is made up of £31.0 million net cash, a £50.0 million revolving credit facility ('RCF'), which is committed to 2023 and has now been fully drawn down, a £5.0 million overdraft and £50.0 million under the Bank of England's COVID Corporate Financing Facility available until May 2021 (both not yet drawn down). In addition, SThree has a £20.0 million accordion facility as well as a substantial working capital position reflecting net cash due to SThree for placements already undertaken.

At the half year, the funds borrowed under the RCF bear interest at a minimum annual rate of 1.3% above a three-month Sterling LIBOR, giving an average interest rate of 1.9% during the period (HY 2019: 2.0%).

These demonstrate that the Group remains in a strong financial position and has sufficient cash reserves to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements. The Board therefore considers it appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements. For further details, including our scenarios, please refer to note 1 of the financial statements.

[3] Cash conversion ratio is an alternative performance measure used by the Group and defined as cash generated by operating activities after payments for purchases of property, plant and equipment and principal repayments of lease liabilities. For further details please refer to note 15 of this Interim Report.

PRINCIPAL RISKS

The principal risks and uncertainties to which the Company was exposed in 2020 have understandably been impacted by COVID-19 and have therefore been updated versus those outlined in the SThree plc Group Annual Report and Accounts for the year ended 30 November 2019.

Defining our principal risks

The Group's robust Enterprise Risk Management ('ERM') framework ensures the ongoing monitoring of principal risks and controls by the Board and Audit Committee. In this way, the Directors remain vigilant to changes within all SThree's operating environments, proactively identify new risks and opportunities, whilst striving to mitigate any threats to business viability.

During the six months ended 31 May 2020, we observed a change in risk dynamics due to the COVID-19 outbreak and resulting measures taken by various governments to contain the virus. This required changes in our principal risk articulation, with our most important risks (including an assessment of the likelihood of the occurrence of each) outlined below.

Our principal risks

Principal risk	Background	Potential impact	Key mitigating factors	Change from 2019 year-end
Macroeconomic environment	Historically the wider recruitment sector has been highly cyclical due to its direct correlation with global economic trends. Therefore, short to medium-term planning and target setting can become particularly challenging due to the lack of visibility.	- Reduced profitability and liquidity - Potential to over or under invest	-Well diversified operations across geographies, sectors and mix of permanent and contract business - Flexible cost base which is managed to react swiftly - Strong balance sheet - Cash generative and requires low level of capital investment	Increase
Commercial relationships/Customer risk	Customer inability to fulfil financial obligations resulting in the write-off of debts or cancellation of contracts/future revenues.	-Financial loss -Cash depletion -Limitations on cash recovery -Lower future expected revenues	-Robust credit rating and verification procedures to manage working capital and credit risk -Client diversification -Successful launch of a new credit risk solution, designed to enhance the data available, covering over 90% of global client base.	Increase due to COVID-19, impacting global economy and business viability
Contractual risk	Clients increasingly require more complex or onerous contractual arrangements. This risk increases in jurisdictions underpinned by a culture of litigation as opposed to regulation.	-Unfavourable terms could adversely affect profitability -Failure to achieve growth plans	-Strict and robust control process over non-standard contracts, further supported by the Legal Department and overseen by the Risk & Compliance function -In-depth legal knowledge in local jurisdictions	No change
People: talent acquisition and retention	The Group is reliant on its ability to recruit, train, develop and retain high performing individuals to meet its growth strategy. High attrition, low female representation, or a lack of diverse thinking may adversely affect the Group's performance.	-Loss of key, experienced talent -Lack of diverse thinking -Reduction in profitability -Increase in reputational risk	-A structured career development with ongoing training and competitive pay/benefits schemes -Continuous engagement with leadership staff and improvement of their skills to allow all employees to realise their full potential -Strong focus on diversity and inclusion agenda -Steps in place to improve wellbeing of employees	Increase due to COVID-19 with the demand for greater working flexibility, resulting in rise of talent acquisition risk. SThree is well positioned with agility to adopt more flexible/ best working practices.
Competitive environment/ Business model	Competitors, social media or disruptive technology/innovation taking market share and putting pressure on margins.	-New market entrants and their threat to the viability of the Group's business model -Reduction in profitability	-Geographical diversification -Business agility to new trends, to help guard against the risk of disruptive technology -Investment in online presence to improve customer experience -Introduction of NPS tracking	Increase due to COVID-19 resulting in reduced level of business but opening new opportunities.
Information technology	A serious system or third-party disruption, resulting in loss of data or security breach could have a material adverse impact.	-Operational disruption -Loss of sensitive data -Damage to corporate reputation	-Monitoring of threat landscape and remediate associated vulnerabilities -Regular reviews of IT infrastructure -Safeguard critical IT and operational assets	Increase due to COVID-19. Greater reliance on IT and remote working has led to a rise in online security

				vulnerabilities
Compliance	The specialist recruitment industry is governed by increasingly complex laws and regulation. Changes in legislation, such as IR35 and DBA in the Netherlands, provide both risks and opportunities and help to drive further demand for added value services.	-Damage to corporate reputation -Legal fines and penalties	-Compliance policies and processes, onboarding processes or systems customised to specific local market or sector needs and best practice -Regular reviews by Internal Audit of controls and systems -Effective tax strategy to manage local risks	Processes have been adapted to fit new working environments, in line with updated regulations, however there is no change in the risk level
Data processing and management	The Group works with confidential, sensitive, and personal data in several countries daily under a variety of laws and regulations.	-Damage to corporate reputation. -Legal disputes.	-Policies and procedures for handling and storing sensitive, confidential, and personal data across the Group, have been updated in response to GDPR/privacy changes -Technical controls to maintain data security -Periodic audits of IT systems	Increase due to information collected for COVID-19 emergency response and remote working environment
Brexit	Departure from the EU after the transition period without a free trade arrangement.	-Limited cross-border flows of candidates -Clients relocating from the UK	-Engaging with customers to inform and assist them on necessary administration required to seamlessly continue in roles post Brexit -SThree is well positioned in attractive STEM markets in the EU	No change
Foreign exchange translation	A significant adverse movement in FX rates may reduce profitability.	-Operations outside UK are exposed to foreign exchange translation risk due to movements in exchange rates	-Annual review of the Group's treasury strategy to ensure that it remains appropriate -Group's treasury department proactively monitors transactional FX exposures to ensure that they are minimised	No change
Strategic change management	The inability to manage or effect strategic changes efficiently within the organisation, causing badly delivered projects or excessive financial impact.	-Failure to achieve or optimise growth plans	-Appointment of Chief Strategy & Development Officer (CSDO) to create and manage investment workstreams and improve PMO capability	No change
Pandemic	The COVID-19 global pandemic has impacted not only the business, but wider society, in several areas, albeit first and foremost it is a health crisis.	-Health deterioration of employees, candidates, and clients -Eroded business confidence affecting most sectors -Increased volatility and overall decline in revenues -Financial liquidity stress -Decrease in shareholder value, including withdrawal of dividends, share buy backs and share price weakness and volatility	-Flexible and remote working to protect health -Laptop roll-out to promote WFH combined with enhanced IT infrastructure -Projects initiated to ensure financial protection (appropriate cost measures, enhanced credit control measures and cash collection efforts, access to new lines of liquidity), assess demand and emerging trends and ensure we are in a strong position once the 'new norm' emerges	New risk

This overview of our most important risks involves an assessment of the likelihood of their occurrence and their potential consequences but may not cover all risks that can ultimately affect the Company. There are risks not as yet materialised or emerging risks that are currently believed to be immaterial, but which may have a more significant impact on our business or financial performance in the future, e.g. climate change, future changes to laws and regulations. Horizon watching activities undertaken by the Board and functional level aim to identify future risks with the consequent knock on effect on the Group, including any mitigating actions.

Governance and internal control

COVID-19 had a manageable impact on the operation of the Group's systems of governance and internal control, including the quality of information that was available to the Board members and senior leadership for decision making. As such, management and the Board were properly engaged with, and in a position to address, the most important aspects of the situation during the period.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

(a) the Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole for the period ended 31 May 2020 as required by the Disclosure Guidance and Transparency Rules sourcebook of the UK FCA ('DTR') 4.2.4R; and

(b) the Interim Management Report includes a fair review of the information required by:

DTR 4.2.7R of the DTRs, being an indication of important events that have occurred during the first six months of the current financial year and their impact on the Condensed Consolidated Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

DTR 4.2.8 R of the DTRs, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the 2019 Annual Report and Accounts for SThree plc and its subsidiaries for the year ended 30 November 2019, that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

The Directors of SThree Plc are listed in the SThree plc Annual Report and Accounts for 30 November 2019. A list of the current Directors is maintained on the Group's website www.sthree.com.

Signed on behalf of the Board:

Mark Dorman
Chief Executive Officer

Alex Smith
Chief Financial Officer

16 July 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED INCOME STATEMENT - UNAUDITED

for the half year ended 31 May 2020

		31 May 2020			31 May 2019		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	602,639	-	602,639	653,268	-	653,268
Cost of sales		(451,466)	-	(451,466)	(490,279)	-	(490,279)
Net fees	2	**151,173**	**-**	**151,173**	**162,989**	**-**	**162,989**
Administrative (expenses)/income	3	(137,900)	416	(137,484)	(138,383)	(1,333)	(139,716)
Operating profit		**13,273**	**416**	**13,689**	**24,606**	**(1,333)**	**23,273**
Finance income		36	-	36	29	-	29
Finance costs		(760)	-	(760)	(628)	-	(628)
Profit before taxation		**12,549**	**416**	**12,965**	**24,007**	**(1,333)**	**22,674**
Income tax (expense)/credit	4	(5,072)	(79)	(5,151)	(6,481)	253	(6,228)
Profit for the period attributable to owners of the Company		**7,477**	**337**	**7,814**	**17,526**	**(1,080)**	**16,446**
Earnings per share	6	**pence**	**pence**	**pence**	**pence**	**pence**	**pence**
Basic		5.7	0.2	5.9	13.5	(0.8)	12.7
Diluted		5.5	0.3	5.8	13.0	(0.8)	12.2

The above condensed consolidated statement of income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED

For the half year ended 31 May 2020

	Note	31 May 2020 £'000	31 May 2019 £'000
Profit for the period		**7,814**	**16,446**
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on retranslation of foreign operations		6,681	220
Items that will not be subsequently reclassified to profit or loss:			
Net loss on equity instruments at fair value through other comprehensive income		(12)	(983)
Other comprehensive income/(loss) for the period (net of tax)		6,669	(763)
Total comprehensive income for the period attributable to owners of the Company		**14,483**	**15,683**

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

as at 31 May 2020

	Note	31 May 2020 £'000	Audited 30 November 2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,9	44,694	6,804
Intangible assets	3	6,603	8,031
Investments		1	13
Deferred tax assets		3,302	4,167
		54,600	19,015
Current assets			
Trade and other receivables		228,634	270,350
Current tax assets		730	624
Cash and cash equivalents	7	81,047	15,093
		310,411	286,067
Total assets		**365,011**	**305,082**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	1,330	1,326
Share premium	10	32,948	32,161
Other reserves		3,960	(8,338)
Retained earnings		85,456	91,622
Total equity		**123,694**	**116,771**
Non-current liabilities			
Lease liabilities	1,9	28,711	-
Provisions for liabilities and charges		2,519	1,403
		31,230	1,403
Current liabilities			
Borrowings	8	50,000	-
Lease liabilities	1,9	11,347	-
Bank overdraft	7	7	4,538
Provisions for liabilities and charges		8,436	8,275
Trade and other payables		140,297	172,357
Current tax liabilities		-	1,738
		210,087	186,908
Total liabilities		**241,317**	**188,311**
Total equity and liabilities		**365,011**	**305,082**

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED

for the half year ended 31 May 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury reserve £'000	Currency translation reserve £'000	Fair value reserve of equity investments £'000	Retained earnings £'000	Total equity attributable to owners of the Company £'000
Audited balance at 30 November 2018	**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**-**	**75,116**	**101,671**
Effect of a change in accounting policy	-	-	-	-	-	-	-	(2,392)	(2,392)
Restated total equity at 1 December 2018	**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**-**	**72,724**	**99,279**
Profit for the half year ended 31 May 2019	-	-	-	-	-	-	-	16,446	16,446
Other comprehensive income for the period	-	-	-	-	-	220	(983)	-	(763)
Total comprehensive income for the period	-	-	-	-	-	220	(983)	16,446	15,683
Dividends paid to equity holders (note 5)	-	-	-	-	-	-	-	(6,069)	(6,069)
Dividends payable to equity holders (note 5)	-	-	-	-	-	-	-	(12,722)	(12,722)
Settlement of share-based payments	2	284	-	-	1,507	-	-	(1,507)	286
Purchase of own shares by Employee Benefit Trust (note 10)	-	-	-	-	(877)	-	-	-	(877)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	-	1,672	1,672
Total movements in equity	**2**	**284**	**-**	**-**	**630**	**220**	**(983)**	**(2,180)**	**(2,027)**
Unaudited balance at 31 May 2019	**1,321**	**30,795**	**172**	**878**	**(7,200)**	**1,725**	**(983)**	**70,544**	**97,252**
Audited balance at 30 November 2019	**1,326**	**32,161**	**172**	**878**	**(5,005)**	**(2,387)**	**(1,996)**	**91,622**	**116,771**
Effect of a change in accounting policy (note 1)	-	-	-	-	-	-	-	(978)	(978)
Restated total equity at 1 December 2019	**1,326**	**32,161**	**172**	**878**	**(5,005)**	**(2,387)**	**(1,996)**	**90,644**	**115,793**
Profit for the half year ended 31 May 2020	-	-	-	-	-	-	-	7,814	7,814
Other comprehensive income for the period	-	-	-	-	-	6,681	(12)	-	6,669
Total comprehensive income for the period	-	-	-	-	-	6,681	(12)	7,814	14,483
Transfer of loss on disposal of equity investments through other comprehensive income to retained earnings	-	-	-	-	-	-	1,996	(1,996)	-
Dividends paid to equity holders (note 5)	-	-	-	-	-	-	-	(6,656)	(6,656)
Settlement of vested tracker shares	-	-	-	-	61	-	-	55	116
Settlement of share-based payments	4	787	-	-	4,901	-	-	(4,901)	791
Purchase of own shares by Employee Benefit Trust (note 10)	-	-	-	-	(1,329)	-	-	-	(1,329)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	-	496	496
Total movements in equity	**4**	**787**	**-**	**-**	**3,633**	**6,681**	**1,984**	**(5,188)**	**7,901**
Unaudited balance at 31 May 2020	**1,330**	**32,948**	**172**	**878**	**(1,372)**	**4,294**	**(12)**	**85,456**	**123,694**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

for the half year ended 31 May 2020

	Note	31 May 2020 £'000	31 May 2019 £'000
Cash flows from operating activities			
Profit before taxation after exceptional items		12,965	22,674
Adjustments for:			
Depreciation and amortisation charge		3,058	3,001
Lease asset depreciation		6,137	-
Impairment of intangible assets		34	-
Finance income		(36)	(29)
Finance cost		760	628
Loss on disposal of property, plant and equipment		11	8
FX revaluation gain on investments		-	(5)
Non-cash charge for share-based payments		496	1,672
Operating cash flows before changes in working capital and provisions		**23,425**	**27,949**
Decrease in receivables		57,320	3,187
Decrease in payables		(40,968)	(19,905)
Increase/(decrease) in provisions		2,281	(916)
Cash generated from operations		42,058	10,315
Finance income		36	10
Income tax paid - net		(5,590)	(6,345)
Net cash generated from operating activities		36,504	3,980
Cash generated from operating activities before exceptional items		37,255	5,606
Cash outflow from exceptional items		(751)	(1,626)
Net cash generated from operating activities		36,504	3,980
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,028)	(721)
Purchase of intangible assets		(41)	(520)
Net cash used in investing activities		(2,069)	(1,241)
Cash flows from financing activities			
Proceeds from/(net repayments of) borrowings	8	50,000	(22,428)
Interest paid		(352)	(570)
Lease principal payments		(6,700)	-
Employee subscription for tracker shares		268	70
Proceeds from exercise of share options		791	286
Purchase of own shares by Employee Benefit Trust		(1,329)	(877)
Dividends paid to equity holders	5	(6,656)	(6,069)
Net cash generated from/(used in) financing activities		36,022	(29,588)
Net increase/(decrease) in cash and cash equivalents		**70,457**	**(26,849)**
Cash and cash equivalents at beginning of the year		10,555	33,323
Exchange gains relating to cash and cash equivalent		28	497
Net cash and cash equivalents at end of the year	**7**	**81,040**	**6,971**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT - UNAUDITED

for the half year ended 31 May 2020

1. ACCOUNTING POLICIES

Corporate information

SThree plc ('the Company') and its subsidiaries (collectively 'the Group') operate predominantly in the United Kingdom & Ireland, Continental Europe, USA and Asia Pacific & Middle East. The Group consists of different brands and provides both Permanent and Contract specialist recruitment services, primarily in the Life Sciences, Technology, Engineering and Banking & Finance sectors.

The Company is a public limited company listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom and registered in England and Wales. Its registered office is 1st Floor, 75 King William Street, London, EC4N 7BE.

This Condensed Consolidated Interim Financial Report ('Interim Financial Report') of the Group as at and for the half year ended 31 May 2020 comprises that of the Company and all its subsidiaries. The Interim Financial Report is unaudited and has not been reviewed by external auditors. It does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 November 2019 were approved by the Board of Directors on 24 January 2020 and a copy was delivered to the Registrar of Companies. The auditors reported on those accounts, their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Interim Financial Report of the Group was approved by the Board for issue on 16 July 2020.

Basis of preparation

This Interim Financial Report for the half-year reporting period ended 31 May 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* ('IAS 34') as adopted by the European Union. The Interim Financial Report is presented on a condensed basis as permitted by IAS 34 and therefore does not include all disclosures that would otherwise be included in an annual financial report and should be read in conjunction with the Group's 2019 annual financial statements, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted and endorsed by the European Union.

Going concern

The 2020 Group Interim Report was prepared on a going concern basis.

The Group's business model has been tested during the period of challenging market conditions and has been found to be effective and resilient.

When assessing SThree's ability to continue as a going concern, the Directors evaluated multiple scenarios of the existing and anticipated effects of the COVID-19 outbreak on the short- and medium-term performance of the Group ("V", "U", our most likely base scenario, "W" and "L"), including reverse stress testing to evaluate the circumstances, assessed as remote, in which financial covenants in respect of the revolving credit facility ('RCF') would be broken. Through this process the Directors have satisfied themselves that the Group will be able to meet its commitments and obligations for at least the next twelve months.

Under our most likely base scenario, the Directors modelled that movement restrictions including lockdown of businesses prevail for approximately six months, i.e. from March 2020 to the end of August 2020, with staffing activity growing, albeit in a volatile manner, for the remainder of the year and into 2021. The base scenario reflects cost management actions already being implemented by the Directors.

A further severe but plausible downside from the base scenario has been created and reviewed.

Scenario "L":

- Decline in demand resulting in net fees down 18% in FY 2020 (Q3 2020 down 20% and Q4 2020 down 36%) and down 15% in FY 2021 (Q1 2021 down 37%, Q2 2021 down 24%)
- Increase in Day Sales Outstanding 'DSO' of 1 day in 2020 and 2 days in 2021
- Offset by proportionate mitigating cost reduction actions

Under the "L" scenario, the Group would continue to have liquidity headroom and remain within its RCF financial covenants.

SThree continues to benefit from a strong financial position. As at 31 May 2020 the Group had total accessible liquidity of £136.0 million. This is made up of £31.0 million net cash, a £50.0 million RCF, which has now been fully drawn down, a £5.0 million overdraft and £50.0 million from the CCFF (both not yet drawn down). In addition, SThree has a £20.0 million accordion facility as well as a substantial working capital position reflecting net cash due to SThree for placements already undertaken. The agreement with the banks combined with the other measures taken means that, even under the severe but plausible low case scenario, the business would continue to have significant liquidity headroom on its existing facilities and would remain within its financial covenants. As at 31 May 2020 the financial covenants were met.

In summary, the Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

Significant accounting policies

The accounting policies adopted are consistent with those applied in the preparation of the Group's 2019 annual financial statements and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

New standards and interpretations

A number of new or amended standards became applicable for the current reporting period. None of these, however, other than the adoption of IFRS16 *Leases*, had a significant impact on the Group's accounting policies or the condensed consolidated interim financial statements.

IFRS 16 *Leases*

This note explains the impact of the adoption of IFRS 16 *Leases* ('IFRS 16') on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 December 2019, where they are different to those applied in prior periods.

(a) Impact on the financial statements

The Group adopted IFRS 16 retrospectively from 1 December 2019 but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. As presented below, the reclassifications and the adjustments arising from the adoption of the new leasing standard are therefore recognised in the opening balance sheet on 1 December 2019.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	30 November 2019 £'000	Adjustments on adoption of IFRS 16 £'000	1 December 2019 £'000
Non-current assets			
Property, plant and equipment	6,804	42,835	49,639
Deferred tax assets	4,167	342	4,509
	10,971	**43,177**	**54,148**
Non-current liabilities			
Provisions	1,403	1,137	2,540
Lease liabilities	-	31,392	31,392
	1,403	**32,529**	**33,932**
Current liabilities			
Provisions	8,275	(1)	8,274
Lease liabilities	-	11,627	11,627
	8,275	**11,626**	**19,901**
Equity			
Retained earnings	91,622	(978)	90,644

(b) Accounting policies applied from 1 December 2019

From 1 December 2019, leases, from a lessee perspective, are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a net present value basis and are recognised as part of 'Property, plant and equipment', 'Non-current lease liabilities' and 'Current lease liabilities' within the condensed consolidated interim balance sheet, respectively.

Lease liabilities include the net present value of the following lease payments:

a) fixed payments less any lease incentives receivable;
b) variable lease payments that are based on an index or a rate;
c) amounts expected to be payable by the lessee under residual value guarantees, if any;
d) the exercise price of a purchase option if the Group is reasonably certain it will exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease (if that rate can be determined), or the incremental borrowing rate of the lease, being the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. In determining the incremental borrowing rate to be used, the Group applies judgement to establish the suitable reference rate and credit spread.

Each lease payment is allocated between the liability and finance costs, within finance costs in the condensed consolidated interim income statement.

Right-of-use assets are measured at cost comprising the following:

a) the amount of the initial measurement of lease liability;
b) any lease payments made at or before the commencement date less any lease incentive received;
c) any initial direct costs; and
d) any restoration costs.

The right-of-use assets are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

The Group does not apply the recognition exemption to short-term leases or leases of low value assets, as permitted by the standard.

In determining the lease terms, the Directors consider all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise termination option. Extension options (or periods after termination option) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Interim Financial Report requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, the actual results may ultimately differ from these estimates.

In preparing the Interim Financial Report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Group's 2019 annual financial statements, with the exception of changes in estimates that are required in determining the provision for income taxes.

Seasonality of Operations

Due to the seasonal nature of the recruitment business, higher revenues and operating profits are usually expected in the second half of the year compared to the first half. In the financial year ended 30 November 2019, 49% of net fees were earned in the first half of the year, with 51% earned in the second half.

2. SEGMENTAL ANALYSIS

The Group's operating segments are established on the basis of those components of the Group that are regularly reviewed by the Group's chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Group's business is considered primarily from a geographical perspective.

The Directors have determined the chief operating decision maker to be the Executive Committee made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief People Officer and the Chief Sales Officer, with other senior management attending via invitation.

In the current year, the Group 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. As a result, the Group segments the business into the following reportable regions: DACH, EMEA excluding DACH, USA and APAC, as well as presents an analysis of net fees by its five key markets: Germany, Netherlands, USA, UK and Japan. On a sector basis, Engineering now includes Energy, which was previously reported separately. The comparative numbers have been restated in accordance with the new reporting structure.

DACH region comprises Germany, Switzerland and Austria. 'EMEA excluding DACH' region comprises primarily Belgium, France, Netherlands, Spain, UK, Ireland, and Dubai. All these sub-regions were aggregated into two separate reportable segments based on the possession of similar economic characteristics.

Countries aggregated into DACH and separately into 'EMEA excluding DACH' generate a similar average net fees margin and long-term growth rates, and are similar in each of the following areas:

- the nature of the services (i.e. recruitment/candidate placement);
- the methods used in which they provide services to clients (i. Freelance contractors, ii. Employed contractors, and iii. 'Permanent' candidates);
- the class of candidates (candidates, who we place with our clients, represent skill sets in Science, Technology, Engineering and Mathematics disciplines).

The Group's management reporting and controlling systems use accounting policies that are the same as those described in note 1 in the summary of significant accounting policies in the Group's 2019 annual financial statements.

Revenue and net fees by reportable segment

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'net fees' in the management reporting and controlling systems. Net fees are the measure of segment profit comprising revenue less cost of sales.

Intersegment revenue is recorded at values which approximate third party selling prices and is not significant.

	Revenue		Net fees	
	31 May 2020	31 May 2019	31 May 2020	31 May 2019
	£'000	£'000	£'000	£'000
EMEA excluding DACH	303,273	341,138	60,509	69,190
DACH	176,055	178,310	50,139	51,203
USA	109,461	114,554	35,364	35,468
APAC	13,850	19,266	5,161	7,128
	602,639	**653,268**	**151,173**	**162,989**

EMEA excluding DACH includes UK, Ireland, Belgium, France, Luxembourg, Netherlands, Spain and Dubai.

DACH includes Germany, Austria and Switzerland.

APAC includes Australia, Hong Kong, Japan, Malaysia and Singapore.

Other information

The Group's revenue from external customers, its net fees and information about its segment assets (non-current assets excluding deferred tax assets) by key location are detailed below:

	Revenue		Net fees	
	31 May 2020	31 May 2019	31 May 2020	31 May 2019
	£'000	£'000	£'000	£'000
Germany	158,859	163,296	45,967	47,673
Netherlands	118,407	126,512	23,137	24,738
USA	109,461	114,554	35,364	35,468
UK	97,667	117,754	18,632	21,617
Japan	3,458	4,153	2,854	3,633
ROW(1)	114,787	126,999	25,219	29,860
	602,639	**653,268**	**151,173**	**162,989**

	Non-current assets	
		Audited
	31 May	30 November
	2020	2019
	£'000	£'000
UK	18,569	11,160
Germany	11,637	949
USA	6,787	600
Netherlands	5,223	596
Japan	239	43
ROW(1)	8,843	1,500
	51,298	**14,848**

(1) ROW (Rest of the World) includes all other countries the Group operates in excluding Germany, Netherlands, UK, USA and Japan.

The following segmental analysis by brands, recruitment classification and sectors (being the profession of candidates placed) have been included as additional disclosure to the requirements of IFRS 8.

	Revenue		Net fees	
	31 May 2020	31 May 2019	31 May 2020	31 May 2019
	£'000	£'000	£'000	£'000
Brands				
Progressive	192,221	216,883	45,905	49,244
Computer Futures	183,791	193,957	46,158	49,511
Real Staffing Group	124,411	120,579	35,643	35,472
Huxley Associates	102,216	121,849	23,534	28,762
	602,639	**653,268**	**151,173**	**162,989**

Other brands including Global Enterprise Partners, JP Gray, Madison Black, Newington International and Orgtel are rolled into the above brands.

Additional information

	Revenue		Net fees	
	31 May 2020	31 May 2019	31 May 2020	31 May 2019
	£'000	£'000	£'000	£'000
Recruitment classification				
Contract	564,797	610,563	114,521	121,098
Permanent	37,842	42,705	36,652	41,891
	602,639	**653,268**	**151,173**	**162,989**

	Revenue		Net fees	
	31 May 2020	31 May 2019	31 May 2020	31 May 2019
	£'000	£'000	£'000	£'000
Sectors				
Technology	297,588	310,501	68,414	73,111
Engineering	139,249	150,837	33,312	34,722
Life Sciences	104,321	97,536	32,831	31,532
Banking & Finance	54,250	79,082	14,275	18,777
Other	7,231	15,312	2,341	4,847
	602,639	**653,268**	**151,173**	**162,989**

Other includes Procurement & Supply Chain and Sales & Marketing. Engineering includes Energy.

3. PROFIT AND LOSS INFORMATION

Profit for the half-year includes the following items that are unusual because of their nature, size, or incidence:

	31 May 2020 £'000	31 May 2019 £'000
1. Net exceptional income/(expense)	416	(1,333)
2. Impact of COVID-19 on items of income/(expense):		
Government assistance due to COVID-19	679	-
Impairment of intangible assets	(34)	-
Share-based payment charge	(496)	(1,672)
Impairment of trade receivables	(1,292)	(963)

1. Net exceptional income/expense

In line with the Group's prior year practice and accounting policy, the following items of material or non-recurring nature were excluded from the directly reconcilable IFRS measures.

1 Support function relocation - This is a legacy programme, which was partially funded by a grant receivable from Scottish Enterprise. The Group is entitled to the grant over several years until 2021, subject to the terms of the grant being met. In H1 2020, the Group recognised £0.5 million in grant income (HY 2019: net exceptional costs of £0.1 million, comprising £0.5 million in personnel and property costs less government grant income of £0.4 million).

2 Senior leadership restructuring - In 2019, several key changes were made to the senior leadership structure within EMEA region. In HY 2020, true-up of £0.1 million (HY 2019: £nil) in remaining charges was added to the overall cost of the senior leadership restructuring and reflected in the 2020 Interim Report.

3 CEO change - In the prior period, operating expenses classified as exceptional also included costs of £1.2 million associated with the appointment of the new CEO, Mark Dorman, mainly comprising contractual payments to the departing CEO and recruitment fees.

2. Impact of COVID-19

The COVID-19 had implications on certain items of income and expense in the Group condensed consolidated interim financial statements, affecting the profit before tax for the six months ended 31 May 2020.

Government assistance income

Various local governments announced measures to provide both financial and non-financial assistance to the disrupted industry sectors and the affected business organisations.

Early May, the Group took advantage of Job Retention scheme launched by the Governments of the UK and Singapore, whereby it was reimbursed for a portion of salaries of the personnel, who have been furloughed. In H1 2020, the Group recognised a total benefit, including the associated payroll savings, totalling £0.7 million from the UK and Singapore national Governments. The compensation was presented as a deduction in reporting the related staff expense.

Impairment of intangible assets

The Directors re-visited forecasts of realisable benefits and other assumptions such as SThree cost of capital, used to determine the recoverable amount of the Group's intangible assets. In the light of increased risk, uncertainty, and reduced economic activity caused by COVID-19, which in turn resulted in a decline of demand for SThree services and increase in operating costs, fair values of certain internally developed assets were assessed as no longer recoverable. Within the six months ended 31 May 2020, the impairment charge of £0.03 million was recognised (HY 2019: £nil).

Reduction in share-based payment charge

Due to COVID-19 the Directors revised the full year estimate of the Group's adjusted profit before tax ('PBT') for the financial years 2020 to 2022. The adjusted PBT is one of the key assumptions used to determine share-based payment charge attributable to Long Term Incentive Plan ('LTIP'). Based on the revised PBT forecast, certain performance conditions for unvested LTIP are no longer achievable. Accordingly, the share-based payment charge recognised in H1 2020 amounted to £0.5 million (HY 2019: £1.7 million).

Impairment of trade receivables

There has been a moderate increase in credit risk (risk of default) for the Group book of trade debtors as a result of some of our customers facing financial difficulty or insolvency due to the COVID-19. The Directors adjusted the forward-looking information (including macro-economic information) considered when measuring expected credit losses for the trade debtors. This was partially offset by several credit control initiatives undertaken by the Group to preserve cash and identify any early signs of clients' credit deterioration or credit disputes for immediate resolution. Overall, the expected credit losses for trade debtors increased by approximately 34% versus the comparative period. Within the six months ended 31 May 2020, the Group recognised the expected credit losses at £1.3 million (HY 2019: £1.0 million).

4. TAXATION

Income tax for the half year is accrued based on the Directors' best estimate of the average annual effective tax rate for the financial year. The tax charge for the half year amounted to £5.2 million (HY 2019: £6.2 million) at an effective rate of 39.7% (HY 2019: 27.5%). The effective tax rate on the pre-exceptional trading profits arising in the period is 40.4% (HY 2019: 27.0%). The tax rate is higher in the current year primarily due to current year losses not recognised for deferred tax purposes.

5. DIVIDENDS

Amounts recognised as distributions to equity holders in the period	31 May 2020 £'000	31 May 2019 £'000
Interim dividend of 5.1p (2018: 4.7p) per share	6,656	6,069
Final dividend of nil p (2018: 9.8p) per share	-	12,722
	6,656	**18,791**

2019 interim dividend of 5.1 pence (2018: 4.7 pence) per share was paid on 6 December 2019.

No final dividend for 2019 was approved by shareholders at the AGM on 20 April 2020 (2018: 9.8 pence) as this was withdrawn by the company in response to the COVID-19 pandemic. As material uncertainty remains, no 2020 interim dividend was proposed by the Board.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share ('EPS') is set out below:

Basic EPS is calculated by dividing the earnings attributable to owners of the Company by the weighted average number of shares in issue during the period excluding shares held as treasury shares and those held in the Employee Benefit Trust which are treated as cancelled.

For diluted EPS, the weighted average number of shares in issue is adjusted to assume conversion of dilutive potential shares. Potential dilution resulting from tracker shares takes into account profitability of the underlying tracker businesses and SThree plc's earnings per share. Therefore, the dilutive effect on EPS will vary in future periods depending on any changes in these factors.

	31 May 2020 £'000	31 May 2019 £'000
Earnings		
Profit for the period after tax before exceptional items	7,477	17,526
Exceptional items net of tax	337	(1,080)
Profit for the period attributable to owners of the Company	**7,814**	**16,446**

	million	million
Number of shares		
Weighted average number of shares used for basic EPS	132.0	129.9
Dilutive effect of share plans	3.3	5.3
Diluted weighted average number of shares used for diluted EPS	**135.3**	**135.2**

	31 May 2020 pence	31 May 2019 pence
Basic		
Basic EPS before exceptional items	5.7	13.5
Impact of exceptional items	0.2	(0.8)
Basic EPS after exceptional items	**5.9**	**12.7**
Diluted		
Diluted EPS before exceptional items	5.5	13.0
Impact of exceptional items	0.3	(0.8)
Diluted EPS after exceptional items	**5.8**	**12.2**

7. CASH AND CASH EQUIVALENTS

	31 May 2020 £'000	Audited 30 November 2019 £'000
Cash at bank	81,047	15,093
Bank overdraft	(7)	(4,538)
Net cash and cash equivalents per the statement of cash flows	**81,040**	10,555

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair values. Substantially all of these assets are categorised within level 1 of the fair value hierarchy.

The Group has three cash pooling arrangements in place at HSBC US (USD), Natwest (GBP) and Citibank (EUR).

8. BORROWINGS

As a precautionary measure, the Group took advantage of the COVID Corporate Financing Facility ('CCFF') provided by the UK Government to UK-based businesses. Under the scheme, the Group received confirmation that it is eligible to access up to £300.0 million of funding under the Bank of England's CCFF to further strengthen its financial position. Of this, the Board has agreed, in consultation with its existing RCF lenders, that the CCFF facility will be capped at £50 million. The facility is available until May 2021. At the reporting date of 31 May 2020, the Company had not drawn on the CCFF.

The Group also maintains a committed Revolving Credit Facility ('RCF') of £50.0 million, along with an uncommitted £20.0 million accordion facility, with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. At the half year, the Group had drawn down £50.0 million (HY 2019: £15.0 million) on these facilities, and the borrowed funds bear interest at a minimum annual rate of 1.3% above a three-month Sterling LIBOR, giving an average interest rate of 1.9% during the period (HY 2019: 2.0%).

The RCF is subject to certain covenants requiring the Group to maintain financial ratios over interest cover, leverage and guarantor cover. The Group has been in compliance with the following covenants throughout the current period.

(i) Interest cover: interest cover shall not be less than the ratio of 4:1 at any time;

(ii) Leverage: the ratio of total net debt on the last day of a period to the adjusted EBITDA in respect of that period shall not exceed the ratio of 3:1; and

(iii) Guarantor cover: the aggregate adjusted EBITDA and gross assets of all the guarantor subsidiaries must at all times represent at least 85% of the adjusted EBITDA and gross assets of the Group as a whole.

The Group's exposure to interest rate, liquidity, foreign currency, and capital management risks is disclosed in the Group's 2019 annual financial statements.

Movements in borrowings are analysed as follows:

	£'000
Opening amount as at 1 December 2018	37,428
Net repayments during the period	(22,336)
Changes to unamortised transaction costs	(92)
Unaudited closing amount as at 31 May 2019	**15,000**
Audited closing amount as at 30 November 2019	**-**
Net drawings during the period	50,000
Closing amount as at 31 May 2020	**50,000**

The carrying amount of the Group's borrowing, comprising the RCF, approximates its fair value. The fair value of the RCF is estimated using discounted cash flow analysis based on the Group's current incremental borrowing rates for similar types and maturities of borrowing and is consequently categorised in level 2 of the fair value hierarchy.

9. LEASES

a) Adoption of IFRS 16
The Group applied the modified retrospective transition approach on adoption of IFRS 16 and recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases ('IAS 17'). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 December 2019 was 1.7%.

The table below shows the reconciliation of operating leases commitments previously recognised under IAS 17 and lease liabilities initially recognised under IFRS 16 including the lease liability for leases previously classified as finance leases:

	£'000
Operating lease commitments at 30 November 2019	55,562
Non-lease payments	(1,910)
Effect of discounting at the date of initial application	(10,633)
Lease liabilities recognised at 1 December 2019	**43,019**
Of which are:	
Non-current lease liabilities	31,392
Current lease liabilities	11,627

In line with IFRS 16 transition options, the associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of accrued lease incentives relating to those leases, recognised in the condensed consolidated balance sheet as at 30 November 2019. An immaterial amount of an onerous lease provision required an adjustment to the right-of-use assets at the date of initial application.

b) Leasing activities
The leases which are recorded on the condensed consolidated statement of financial position following implementation of IFRS 16 are principally in respect of buildings and cars.

The Group's right-of-use assets and lease liabilities are presented below:

	31 May 2020
	£'000
Land and buildings	35,401
Other	1,956
Total right of use assets	**37,357**
Non-current lease liabilities	28,711
Current lease liabilities	11,347
Total lease liabilities	**40,058**

10. SHARE CAPITAL

During the period 402,487 (H1 2019: 139,665) new ordinary shares were issued, resulting in a share premium of £0.8million (H1 2019: £0.3 million). These shares were issued pursuant to the exercise of share awards under the Save As You Earn scheme.

Treasury Reserve
Treasury shares represent SThree plc shares repurchased and available for specific and limited purposes.

In the six months ended 31 May 2020, none of its own shares were purchased by SThree plc treasury. 20,978 shares were utilised from treasury on settlement of Long-Term Incentive Plan ('LTIP') awards. At the period end, 49,773 (HY 2019: 1,045,334) shares were held in treasury.

Employee Benefit Trust
The Group holds shares in the Employee Benefit Trust ('EBT'). The EBT is funded entirely by the Company and acquires shares in SThree Plc to satisfy future requirements of the employee share-based payment schemes. For accounting purposes shares held in the EBT are treated in the same manner as shares held in the treasury reserve by the Company and are, therefore, included in the financial statements as part of the treasury reserve for the Group.

In the six months ended 31 May 2020, primarily in the first quarter, the EBT purchased 380,000 (HY 2019: 290,000) of SThree plc shares. The average price paid per share was 348 pence (HY 2019: 302 pence). The total acquisition cost of these shares was £1.3 million (HY 2019: £0.9 million), for which the treasury reserve was reduced. During the period, the EBT utilised 1,560,539 (HY 2019: 466,554) shares on settlement of LTIP awards. At the period end, the EBT held 532,013 (HY 2019: 1,146,783) shares.

11. CONTINGENT LIABILITIES

State Aid

In June 2019, the UK government filed an annulment application with the European Union General Court, against the European Commission's decision of April 2019, that certain parts of the UK's Controlled Foreign Company ('CFC') regime gave rise to State Aid. In addition, in October 2019, the Group filed its own annulment application. The Group has historically relied on the CFC regime in certain jurisdictions. Our maximum potential liability is estimated at £3.2 million. Given both applications, our assessment is that no provision is required in respect of this issue. Whilst the legal process continues, under EU law the UK government is still required to recover aid in line with the Commission's findings. Any amount paid is therefore wholly or partly repayable, pending resolution of the annulment applications.

Legal

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. Legal advice obtained indicates that it is unlikely that any significant liability will arise. The Directors are of the view that no material losses will arise in respect of legal claims that have not been provided against at the date of these interim financial statements.

12. RELATED PARTY DISCLOSURES

The Group's significant related parties are as disclosed in the Group's 2019 annual financial statements. There were no other material differences in related parties or related party transactions in the period compared to the prior period.

13. SHAREHOLDER COMMUNICATIONS

SThree plc has taken advantage of regulations which provide an exemption from sending copies of its interim report to shareholders. Accordingly, the 2020 interim report will not be sent to shareholders but will be available on the Company's website www.sthree.com or can be inspected at the registered office of the Company.

14. SUBSEQUENT EVENTS

There were no subsequent events following 31 May 2020.

15. ALTERNATIVE PERFORMANCE MEASURES ('APMS') – DEFINITIONS AND RECONCILIATIONS

Adjusted APMs

In discussing the performance of the Group, 'comparable' measures are used, which are calculated by deducting from the directly reconcilable IFRS measures the impact of the Group's restructuring costs and CEO change costs, which are considered as items impacting comparability, due to their nature.

Restructuring costs

Support function relocation

This category comprises (income)/costs arising from a strategic relocation of SThree central support functions away from London headquarters to the Centre of Excellence located in Glasgow. Further explained in note 3.

Senior leadership restructuring

This category of costs is attributable to a number of key changes made to the regional leadership structure (impacting EMEA excluding DACH region) in the prior year. Further explained in note 3.

CEO Change costs

Costs associated with the departure of the previous CEO, Gary Elden, and the appointment of the new CEO, Mark Dorman incurred in the prior year.

The Group discloses comparable performance measures to enable users to focus on the underlying performance of the business on a basis which is common to both years for which these measures are presented. The reconciliation of comparable measures to the directly related measures calculated in accordance with IFRS is as follows:

Reconciliation of adjusted financial indicators

31 May 2020	Revenue £'000	Net fees £'000	Administrative expenses £'000	Operating profit £'000	Profit before tax £'000	Tax £'000	Profit after tax £'000	Basic EPS pence
As reported	602,639	151,173	(137,484)	13,689	12,965	(5,151)	7,814	5.9
Exceptional items	-	-	(416)	(416)	(416)	79	(337)	(0.2)
Adjusted	**602,639**	**151,173**	**(137,900)**	**13,273**	**12,549**	**(5,072)**	**7,477**	**5.7**

31 May 2019	Revenue £'000	Net fees £'000	Administrative expenses £'000	Operating profit £'000	Profit before tax £'000	Tax £'000	Profit after tax £'000	Basic EPS pence
As reported	653,268	162,989	(139,716)	23,273	22,674	(6,228)	16,446	12.7
Exceptional items	-	-	1,333	1,333	1,333	(253)	1,080	0.8
Adjusted	**653,268**	**162,989**	**(138,383)**	**24,606**	**24,007**	**(6,481)**	**17,526**	**13.5**

APMs in constant currency

As we are operating in 16 countries and with many different currencies, we are affected by foreign exchange movements, and we report our financial results to reflect this. However, we manage the business against targets which are set to be comparable between years and within them, for otherwise foreign currency movements would undermine our ability to drive the business forward and control it. Within this report, we highlighted comparable results on a constant currency basis as well as the audited results ('on a reported basis') which reflect the actual foreign currency effects experienced.

The Group evaluates its operating and financial performance on a constant currency basis (i.e. without giving effect to the impact of variation of foreign currency exchange rates from year to year). Constant currency APMs are calculated by applying the budgeted foreign exchange rates to current and prior financial year results to remove the impact of exchange rate. (Two main budgeted foreign exchange rates were GBP:EUR of 1.25 and GBP:USD of 1.40).

Measures on a constant currency basis enable users to focus on the performance of the business on a basis which is not affected by changes in foreign currency exchange rates applicable to the Group's operating activities from year to year.

The calculations of the APMs on constant currency basis and the reconciliation to the most directly related measures calculated in accordance with IFRS are as follows:

31 May 2020	Revenue £'000	Net fees £'000	Operating profit £'000	Operating profit conversion ratio*	Profit before tax £'000	Basic EPS pence
Adjusted	602,639	151,173	13,273	8.8%	12,549	5.7
Currency impact	(35,399)	(9,341)	(2,355)	(1.1)%	(2,337)	(1.1)
Adjusted in constant currency	**567,240**	**141,832**	**10,918**	**7.7%**	**10,212**	**4.6**

31 May 2019	Revenue £'000	Net fees £'000	Operating profit £'000	Operating profit conversion ratio*	Profit before tax £'000	Basic EPS pence
Adjusted	653,268	162,989	24,606	15.1%	24,007	13.5
Currency impact	(42,054)	(10,740)	(3,363)	(1.1)%	(3,362)	(1.9)
Adjusted in constant currency	**611,214**	**152,249**	**21,243**	**14.0%**	**20,645**	**11.6**

*Operating profit conversion ratio represents operating profit over net fees.

Other APMs

Net cash excluding lease liabilities

Net cash is an APM used by the Directors to evaluate the Group's capital structure and leverage. Net cash is defined as current and non-current borrowings excluding lease liabilities, plus bank overdraft less cash and cash equivalents, as illustrated below:

	31 May 2020 £'000	30 Nov 2019 £'000
Borrowings	(50,000)	-
Bank overdraft	(7)	(4,538)
Cash and cash equivalents	81,047	15,093
Net cash	**31,040**	**10,555**

Adjusted EBITDA

Adjusted EBITDA is calculated by adding back to the reported operating profit operating non-cash items such as the depreciation and impairment of property, plant and equipment, the amortisation and impairment of intangible assets, the employee share option and exceptional costs. See the table below illustrating how adjusted cash conversion ratio is calculated. Adjusted EBITDA is intended to provide useful information to analyse the Group's operating performance excluding the impact of operating non-cash items as defined above. The Group also uses adjusted EBITDA to measure the level of financial leverage of the Group by comparing adjusted EBITDA to net debt.

Contract margin

The Group uses Contract margin as an APM to evaluate Contract business quality and the service offered to customers. Contract margin is defined as Contract net fees as a percentage of Contract revenue.

		31 May 2020	31 May 2019
Contract net fees (£'000)	**A**	114,521	121,098
Contract revenue (£'000)	**B**	564,797	610,563
Contract margin	**(A ÷ B)**	**20.3%**	**19.8%**

Consultant yield

The Group uses consultant yield as an APM to assess the productivity of the sales teams. Consultant yield is defined as Group net fees divided by Group average sale headcount over a factor of 12.

		31 May 2020	31 May 2019
Total net fees (£'000)	**A**	151,173	162,989
Average sales headcount	**B**	2,387	2,394
Consultant yield (£'000)	**(A ÷ B) ÷ 12**	**5.3**	**5.7**

Cash conversion ratio

The Group uses cash conversion ratio as an APM to measure a business ability to convert profit into cash. It represents cash generated from operations for the year after deducting capex and repayments of lease liabilities, stated as a percentage of operating profit.

The following table illustrates how adjusted cash conversion ratio is calculated:

	31 May 2020						
	Operating profit A	Operating non-cash items	Changes in working capital	Cash generated from operations B	Capex C	Repayments of lease liabilities D	Cash conversion ratio (B+C+D) ÷ A
	£'000	£'000	£'000	£'000	£'000	£'000	%
As reported	13,689	9,736	18,633	42,058	(2,069)	(6,700)	243.2%
Exceptional items	(416)	-	1,067	651	-	-	n/a
Adjusted	**13,273**	**9,736**	**19,700**	**42,709**	**(2,069)**	**(6,700)**	**255.6%**

	31 May 2019						
	Operating profit A	Operating non-cash items	Changes in working capital	Cash generated from operations B	Capex C	Repayments of lease liabilities D	Cash conversion ratio (B+C+D) ÷ A
	£'000	£'000	£'000	£'000	£'000	£'000	%
As reported	23,273	4,676	(17,634)	10,315	(1,241)	-	39.0%
Exceptional items	1,333	(276)	634	1,691	-	-	n/a
Adjusted	**24,606**	**4,400**	**(17,000)**	**12,006**	**(1,241)**	**-**	**43.6%**

* Operating non-cash items represent primarily depreciation, amortisation and impairment of intangible assets, and employee share option and performance share costs as presented in the line 'Non-cash charge for share-based payments' of the condensed consolidated statement of cash flows.

Free cash flow conversion.

The Group uses the free cash flow conversion ratio to measure how effectively it converts operating profit to free cash flow (i.e. after payment of taxes, financing costs and lease repayments). The free cash flow can then be used to fund Group operations such as capex, share buybacks, dividends etc.

FINANCIAL CALENDAR

2020

14 September	Q3 Trading update
30 November	2020 Financial Year end
14 December	Trading update for the year ended 30 November 2020

2021

25 January	Annual results for the year ended 30 November 2020

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