

19 September 2023

SThree plc

FY23 Q3 Trading Update

Resilient performance sustained, underpinned by Contract

SThree plc ("SThree" or the "Group"), the only global specialist talent partner focused on roles in Science, Technology, Engineering and Mathematics ('STEM'), today issues a trading update covering the period 1 June 2023 to 31 August 2023.

Highlights

- Resilient performance, with the movement in Group net fees for Q3 in line with Q2, down 7% YoY⁽¹⁾ against a strong comparative period⁽²⁾ and ongoing global macro-economic weakness.
- Excluding restructured businesses the movement in Group net fees improved from -6% YoY in Q2 to -5% YoY in Q3 demonstrating the value of a focused and disciplined market investment approach.
- Contract net fees performance improved to flat YoY, now representing 84% of Group net fees (FY22 Q3: 77%).
- Permanent net fees (representing 16% of Group) down 31% YoY, reflecting both market conditions and our strategic investment towards Contract in specific markets (average Permanent headcount down 21%).
- In our largest three markets, which represent 73% of net fees, the Netherlands grew 5%, while Germany was down 6% and USA was down 19%.
- Engineering up 20%, with Technology down 6% and Life Sciences down 24%.
- Contractor order book⁽³⁾ remained flat YoY, reflecting sequentially improved new placement activity together with continued robust extensions performance and providing good visibility for the remainder of the year.
- Strong balance sheet with net cash of £83 million at 31 August 2023 (31 August 2022: £57 million).
- Technology Improvement Programme remains on track and on budget, with first city, Houston, now live, and sequenced rollout across the Group progressing in line with stated plans.
- Trading in line with market expectations for full year⁽⁴⁾.

Timo Lehne, Chief Executive, commented:

"We continue to deliver a resilient performance, underpinned by the Group's strategic focus on Contract. While the wider environment remains uncertain, we are encouraged by our sequentially improving new placement performance and strong Contract extensions, demonstrating our clients' sustained demand for critical STEM skills.

Our Technology Improvement Programme, key to driving both scale and higher margins over the mid-to-long term, and to delivering a differentiated and higher value proposition within the market, continues to progress on track and on budget. I am delighted that the first phase of the rollout in Houston is now complete, which is a significant milestone for the Group. We are incredibly excited about the progress that has been made so far and continue to believe that this will be a key strategic step forward for our business.

Our long-term opportunity is clear, underpinned by structural megatrends driving the acute need for scarce STEM talent. While we remain mindful of the macro-economic uncertainty across global markets, with all lead indicators of the Group's performance monitored closely, we look ahead to the opportunities facing us with optimism. Our specialism in STEM skills and new ways of working provides a unique offering to clients and candidates. Supported by a resilient business model and strong financial position, we are trading in line with market expectations for the full year, and we remain well positioned to source and place the best STEM talent the world needs."

	Q3	Q3	Q3 2023	Q2 2023	Q1
Net fees	2023	2022	YoY (1)	YoY (1)	2023
Contract	£86.2m	£86.6m	-	-1%	+8%
Permanent	£16.8m	£25.2m	-31%	-25%	-12%
GROUP	£103.0m	£111.8m	-7%	-7%	+4%
Regions					
DACH ⁽⁵⁾	£36.6m	£38.5m	-6%	-7%	+8%
Netherlands (incl. Spain) ⁽⁶⁾	£21.5m	£19.6m	+9%	+4%	+6%
Rest of Europe ⁽⁷⁾	£17.8m	£18.7m	-5%	-7%	+4%
USA	£22.6m	£29.3m	-19%	-15%	-6%
Middle East & Asia ⁽⁸⁾	£4.5m	£5.7m	-14%	-5%	+19%
GROUP	£103.0m	£111.8m	-7%	-7%	+4%
Top five countries					
Germany	£32.2m	£33.9m	-6%	-8%	+7%
Netherlands	£20.1m	£18.9m	+5%	+1%	+4%
UK	£11.6m	£12.2m	-4%	-6%	+6%
USA	£22.6m	£29.3m	-19%	-15%	-6%
Japan	£2.1m	£2.5m	-4%	-2%	+7%
ROW ⁽⁹⁾	£14.3m	£15.0m	-5%	-2%	+12%
Group	£103.0m	£111.8m	-7%	-7%	+4%

Service mix	Q3 2023	Q3 2022
Contract	84%	77%
Permanent	16%	23%

Skills mix	Q3 2023	Q3 2022
Technology	48%	47%
Life Sciences	17%	22%
Engineering	27%	21%
Other	7%	10%

Business performance highlights

The Group continued to deliver a resilient performance in the quarter with net fees down 7% YoY, with no further deterioration from Q2 against an equally strong prior year comparative period. On a like for like basis (excluding our restructured businesses in Singapore, Hong Kong and Ireland) net fees were down 5% YoY, a sequential improvement on the 6% YoY decline in Q2. Contract, our strategic focus, was flat (or up 1% on a like for like basis excluding our restructured businesses) and now represents 84% of net fees. Our Permanent business was down 31% (or down 28% on a like for like basis), reflecting global market conditions and the strategic transition from Permanent to Contract in several markets, with average Permanent headcount for the quarter down 21% YoY.

Contract

- Net fees flat YoY.
 - Regionally, Netherlands (incl. Spain) was up 10% YoY and Rest of Europe up 4%, while DACH was down 3%, USA down 7% and Middle East & Asia was up 3%.
 - Strong growth in Engineering, up 21% YoY, with Technology down 1% and Life Sciences down 15%.
- Contractor order book remained flat YoY, with continued strong Contract extensions.

Permanent

- Permanent net fees down 31% YoY, with challenging market conditions across all regions, together with the planned transition from Permanent to Contract, particularly in the USA and UK. Average Permanent headcount was down 21% YoY for the quarter.
 - In our major Permanent markets, DACH was down 13% YoY, Netherlands down 9% and Japan down 6%.
 - Modest growth in Engineering, up 13%, with Technology down 22% and Life Sciences down 53%.

Headcount and productivity

- For the quarter, average headcount was down 6% YoY, with average headcount on a YTD basis up 2%.
- Group period-end headcount was down 14% vs FY22 Q4, in part impacted by the restructure of the Singapore, Hong Kong and Ireland businesses. On a like-for-like basis, Group period-end headcount was down 12% vs FY22 Q4.
- Sequentially, period-end headcount was down 5% vs FY23 Q2.
- While we are managing costs tightly, highly disciplined and targeted investment in talent acquisition within Contract remains a priority.
- Productivity was down only 1% YoY in the quarter with the impact of a strong prior year comparator offset by the 6% reduction in average headcount. Productivity was 38% above pre-pandemic levels achieved in FY19 Q3.

Regional highlights

DACH saw net fees decline 6% YoY.

- Germany, our largest country in the region, saw Contract down 3% with overall net fees down 6%, driven by:
 - Engineering up 22%, with increased demand for Construction roles.
 - Offset by Technology and Life Sciences, down 10% and 14% respectively.

Netherlands (incl. Spain) region saw net fees grow 9% YoY.

- Strong growth in Contract up 10% YoY, partially offset by Permanent down 9%.
- The Netherlands, which represents 94% of the region, saw Contract up 7% with overall net fee growth of 5% driven by:
 - Engineering up 16% reflecting increased demand for roles within Project Management, Process Engineering, Electrical Engineering, and QHSE.
 - Technology up 2% with higher demand for Project Managers, Data Engineers and Data Science roles.
- Spain saw strong growth of 107% in the quarter driven by Technology.

Rest of Europe saw net fees decline 5% YoY.

- Contract, which represents 97% of net fees for the region, grew 4%.
- The UK, our largest country in the region, saw Contract up 1% with overall net fees down 4%, reflecting:
 - Engineering up 17%, as demand increased for roles within Project and Construction Management, and Mechanical Engineering.
 - Offset by declines in both Technology, down 5% and Life Sciences, down 26%.

USA saw net fees decline 19% YoY.

- Strategic shift toward Contract in region, which now represents 91% of net fees, with Contract net fees down 7% YoY reflecting:
 - Life Sciences, down 18% YoY in line with the market conditions for that sector.
 - This was partly offset by Engineering up 16%, with increased demand for roles within Construction Management and Electrical Engineering.

Middle East and Asia saw net fees decline 14% YoY. On a like for like basis (excluding our restructured businesses in Singapore and Hong Kong) net fees were up 5% YoY.

- Japan, which represents 48% of the region, was down 4% YoY driven by Technology.
- Solid performance in UAE with net fees up 18% driven by Engineering.

Balance sheet

SThree retains a strong balance sheet, with net cash at 31 August 2023 of £83m (31 August 2022: net cash £57m, 31 May 2023: net cash £72m), partly reflecting the working capital release from the Group's contractor model. Total accessible liquidity of £138m comprises £83m net cash, an undrawn £50m revolving credit facility ('RCF'), which runs until 2025 (with options to extend it until 2027), and a £5m overdraft facility. In addition, SThree has an undrawn £30m accordion facility as well as a substantial working capital position, reflecting net cash due to the Group for placements already undertaken.

Analyst conference call

SThree is hosting a conference call for analysts and investors today at 8.30am to discuss the FY23 Q3 Trading Update. If you would like to register for the conference call, please contact SThree@almapr.co.uk.

The Group will issue its trading update for the year ending 30 November 2023 on 14 December 2023.

(1) All YoY growth rates in this announcement are expressed at constant currency.

(2) FY22 Q3 Group Net Fees up 10% YoY

• FY22 Q3 Group net fees up 19% TOI.

- (3) The contractor order book represents value of net fees until contractual end dates, assuming all contractual hours are worked.
- (4) Current consensus PBT expectation is £71.0m for FY23. Source: SThree compiled consensus.
- (5) DACH - Germany, Austria and Switzerland.
- (6) Netherlands (incl. Spain) - Netherlands and Spain, which is managed from the Netherlands.
- (7) Rest of Europe - UK, Belgium, France, Luxembourg and Ireland.
- (8) Middle East & Asia - Japan, UAE & Singapore.
- (9) ROW - All other countries we operate in.

The information contained within this announcement is deemed by the Group to constitute inside information under the Market Abuse Regulation (Regulation (EU) No.596/2014) as it forms part of UK Domestic Law by virtue of the European Union (Withdrawal) Act 2018.

Enquiries:

SThree plc

Timo Lehne, CEO
Andrew Beach, CFO

via Alma

Alma PR

Rebecca Sanders-Hewett
Hilary Buchanan
Sam Modlin
Will Ellis Hancock

+44 20 3405 0205

SThree@almapr.co.uk

Notes to editors

SThree plc brings skilled people together to build the future. We are the only global specialist talent partner focused on roles in Science, Technology, Engineering and Mathematics ('STEM'), providing permanent and flexible contract talent to a diverse base of over 8,200 clients across 14 countries. Our Group's c.2,700 staff cover the Technology, Life Sciences and Engineering sectors. SThree is part of the Industrial Services sector. We are listed on the Premium Segment of the London Stock Exchange's Main Market, trading with ticker code STEM.

Important notice

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

- Ends -

Appendix

Following the reporting structure change at the start of FY23 the table below provides the historical reporting structure.

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