

14 December 2023

SThree plc

FY 2023 Trading Update

Performance in line, driven by resilience of STEM specialism and Contract focus

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 for the financial year ended 30 November 2023.

Highlights

- Group net fees for the full year down 4% YoY⁽¹⁾ (down 3% excluding restructured businesses⁽²⁾), against a record prior year performance⁽³⁾ and challenging global macro-economic backdrop.
- Robust client extensions drive Contract net fees up 1% YoY, now representing 82% of Group net fees (FY22: 78%).
- Permanent net fees (representing 18% of Group) down 22% YoY, reflecting both difficult market conditions and our strategic transition towards Contract in specific markets (average Permanent headcount down 17%).
- In our three largest markets, which represent 73% of net fees, the Netherlands grew 3%, while Germany and the USA were down 4% and 14%, respectively.
- Against record prior-year comparatives, Engineering up 17%, whilst Technology was down 2% and Life Sciences down 21%.
- Contractor order book⁽⁴⁾ of £184m, whilst down 3% YoY, represents sector-leading visibility with the equivalent of c.4 months' net fees, providing a robust platform for the year ahead.
- Strong balance sheet with net cash of £83 million at 30 November 2023 (30 November 2022: £65 million).
- Technology Improvement Programme remains on budget, and has now successfully gone live across the US business, with sequenced rollout across the rest of the Group progressing in line with plan.
- Performance in line with FY23 market expectations⁽⁵⁾.

Timo Lehne, Chief Executive, commented:

"Following a record prior year, the Group has delivered a consistently robust performance within a challenging macro-economic environment. This gives us confidence that our strategic focus, aligned to structural growth drivers of critical STEM skills and flexible talent, gives us a resilient and financially robust platform from which to deliver our ambitions.

We continue to make good progress with our Technology Improvement Programme, with our new end-to-end integrated platform now deployed and live across the whole of our US business, providing our teams with the technology and tools which will be key to driving both scale and higher margins over the mid-to-long term.

As we enter the start of the new financial year, we haven't yet seen an easing of the macro-economic environment, which continues to drive soft trading conditions. Our strategic focus, exposure to long-term megatrends, and progress to date delivering operational enhancements provide us with a strong platform for sustained growth. We remain excited by the opportunities ahead."

	FY	FY	FY 2023		Q4 2023	Q3 2023	Q2	Q1
	2023	2022	YoY (1)		YoY (1)	YoY (1)	2023	2023
Net fees							YoY (1)	YoY (1)
Contract	£343.6m	£334.2m	+1%		-2%	-	-1%	+8%
Permanent	£75.3m	£96.4m	-22%		-17%	-31%	-	-12%
GROUP	£418.8m	£430.6m	-4%		-5%	-7%	-7%	+4%
Regions								
DACH ⁽⁶⁾	£148.9m	£148.9m	-3%		-5%	-6%	-7%	+8%
Netherlands (incl. Spain) ⁽⁷⁾	£82.1m	£75.7m	+6%		+5%	+9%	+4%	+6%
Rest of Europe ⁽⁸⁾	£70.4m	£73.1m	-4%		-8%	-5%	-7%	+4%
USA	£96.4m	£111.5m	-14%		-14%	-19%	-	-6%
Middle East & Asia ⁽⁹⁾	£20.9m	£21.4m	+3%		+16%	-14%	-5%	+19%
GROUP	£418.8m	£430.6m	-4%		-5%	-7%	-7%	+4%
Top five countries								
Germany	£130.9m	£131.9m	-4%		-6%	-6%	-8%	+7%
Netherlands	£77.1m	£72.9m	+3%		+2%	+5%	+1%	+4%
UK	£45.0m	£46.7m	-3%		-8%	-4%	-6%	+6%
USA	£96.4m	£111.5m	-14%		-14%	-19%	-	-6%
Japan	£9.3m	£9.4m	+6%		+24%	-4%	-2%	+7%
ROW ⁽¹⁰⁾	£60.2m	£58.2m	+2%		+4%	-5%	-2%	+12%
Group	£418.8m	£430.6m	-4%		-5%	-7%	-7%	+4%

Service mix	FY 2023	FY 2022
Contract	82%	78%
Permanent	18%	22%

Skills mix	FY 2023	FY 2022
Technology	48%	47%
Life Sciences	18%	22%
Engineering	26%	22%
Other	8%	9%

Business performance highlights

The Group delivered a robust performance for FY23 against a record prior year, with net fees down 4% YoY. This performance was driven by our significant Contract business up 1%, following robust Contract extensions, offset by Permanent, down 22%, in a large part impacted by the strategic decision to reduce our average Permanent headcount by 17% YoY. Excluding our restructured businesses ⁽²⁾ net fees were down 3% YoY, with Contract, our strategic focus, up 2% and Permanent down 19%.

Contract

- Contract net fees up 1% YoY.
 - Regionally, Netherlands (incl. Spain) was up 7% and Rest of Europe up 3%, while DACH was down 1%, USA down 4% and Middle East & Asia was up 29%.
 - Strong growth in Engineering, up 18% YoY, with Technology up 1% and Life Sciences down 14%.
- The contractor order book closed at £184m, down 3% YoY and accounts for around 4 months' worth of net fees.

Permanent

- Permanent net fees down 22% YoY. with challenging market conditions across all regions.

Permanent net fees down 21% YoY, with challenging market conditions across all regions, together with the planned transition from Permanent to Contract which started in FY22, particularly in the USA and UK. Average Permanent headcount was down 17% YoY.

- In our strategic Permanent markets, DACH was down 8%, Netherlands down 1% and Japan up 5%.
- Modest growth in Engineering, up 4%, with Technology down 12% and Life Sciences down 44%.

Headcount and productivity

- Group average headcount for the year was down 2% YoY. Year-end headcount was down 15%, which was partly impacted by the restructure of the Singapore, Hong Kong and Ireland businesses. On a like-for-like basis, Group period-end headcount was down 13% vs FY22 Q4 as we navigate the uncertain macro-economic environment.
- While we are managing costs tightly, targeted investment in talent acquisition within Contract remains a priority.
- Productivity⁽¹⁾ for the year was down only 2% YoY with the impact of a strong prior year comparator for net fees partially offset by the 2% reduction in average headcount. Productivity remains 34% above pre-pandemic levels achieved in FY19.

Regional highlights

DACH saw net fees decline 3% YoY.

- Germany, our largest country in the region (88% of net fees), saw Contract down 1% with overall net fees down 4%, driven by Engineering up 13%, offset by Technology and Life Sciences, down 4% and 16% respectively.

Netherlands (incl. Spain) region saw net fees grow 6% YoY.

- Strong growth in Contract up 7% YoY, partially offset by Permanent down 2%.
- The Netherlands, which represents 94% of the region, saw Contract up 4% with overall net fee growth of 3% driven by Engineering up 8% and Technology up 3%.
- Spain saw strong growth of 82% in the year driven by Technology.

Rest of Europe saw net fees decline 4% YoY.

- Contract, which represents 95% of net fees for the region, grew 3%.
- The UK, our largest country in the region (64% of net fees), saw Contract up 1% with overall net fees down 3%, reflecting Engineering up 10%, offset by declines in both Technology, down 5% and Life Sciences, down 27%.

USA saw net fees decline 14% YoY.

- Strategic shift toward Contract in region, which now represents 88% of net fees, with Contract net fees down 4% YoY reflecting Life Sciences, down 16% YoY in line with the market conditions for that sector, partly offset by Engineering up 19%.

Middle East and Asia saw net fees up 3% YoY. On a like for like basis (excluding our restructured businesses in Singapore and Hong Kong) net fees were up 20% YoY.

- Japan, which represents 45% of the region, was up 6% YoY driven by Engineering and Life Sciences.
- Strong performance in UAE with net fees up 41% driven by Engineering.

Balance sheet

SThree retains a strong balance sheet, with net cash at 30 November 2023 of £83m (30 November 2022: net cash £65m), 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 FY 2023 Trading Update. If you would like to register for the conference call, please contact SThree@almastrategic.com.

The Group will present its results for the financial year ended 30 November 2023 on 30 January 2024.

(1) All YoY growth rates expressed at constant currency.

• All TOT growth rates expressed at constant currency.

- (2) Businesses restructured in Ireland, Singapore and Hong Kong at the end of FY22.
- (3) FY22 Group Net Fees up 19% YoY to £430.6m.
- (4) The contractor order book represents value of net fees until contractual end dates, assuming all contractual hours are worked.
- (5) Current consensus PBT expectation is £71.3m for FY23. Source: SThree compiled consensus.
- (6) DACH - Germany, Austria and Switzerland.
- (7) Netherlands (incl. Spain) - Netherlands and Spain, which is managed from the Netherlands.
- (8) Rest of Europe - UK, Belgium, France, Luxembourg and Ireland.
- (9) Middle East & Asia - Japan, UAE & Singapore.
- (10) ROW - All other countries we operate in.
- (11) Productivity calculated as net fees divided by total average headcount.

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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.

Appendix

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

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