

Focused on long-term growth.

Gary Elden, OBE
Chief Executive Officer



Chief Executive, Gary Elden, discusses performance in 2018 and looks ahead to the challenges facing the market in 2019 and beyond.

Q.

You have been with the business for nearly 30 years now. How has the role of recruitment changed in that time?

A.

The recruitment industry has changed hugely since I joined. Back then, an individual could come into it young, with no experience and have significant earning potential in a relatively short space of time, putting them on par with or ahead of many qualified professionals. There were very few barriers to entry and there wasn't much competition. Companies themselves had much less direct access to candidates because it was a paper rather than digital world, so you could charge a greater premium for your services.

At that time our business was very SME driven, so in essence you would do a deal with a client and move on to another deal with another client, and so on. Fast forward to today and the world has changed and so too have the markets that we focus on. In many parts of the STEM market, where we operate, the SME model has evolved. I was first exposed to this movement in the market when I set up Huxley, which was focused on the banking industry. It soon became apparent that it was vital to build up long-term relationships to get on the preferred list of suppliers and that to do so you needed to offer a much more rounded service and to have a team around you. That meant that if you worked to the old model, it would only take you so far. If you wanted to break into the majors then you had to be more service oriented – simply getting candidates to clients nowadays isn't enough. It is pleasing to be able to say that we have not just moved with the times, but we are focused on the future and well positioned to benefit as the sector continues its evolution.

Q.

Has that led to a change in culture at SThree?

A.

Very much so. We have had to change with the times and it has been very healthy for us. An integral part of this was to decide on our purpose. After much soul searching as a team we reached the result: 'Bringing skilled people together to build the future'. With this purpose in mind our role had to transform, and the people we needed in the business were no longer just salespeople but also people who could build and nurture our relationships. As the world is becoming more automated, we need to focus on the levels and aspects of our service that machines can't deliver, such as relationship building, empathy, and creativity. We believe measuring this is important, and as such, we introduced Net Promoter Scores three years ago to get detailed information back from our clients and candidates – we wanted to find out what they think of our service and where we could improve.

Alongside this, we need to be advisors and our team, from Executives down, need to understand their markets better than anybody. We need to know exactly what services clients and candidates are looking for to deliver a better outcome, rather than just focusing on how much revenue one individual can generate. As a result, we are a much more rounded team with stronger relationships with our clients and candidates. It has also protected our business, as there are many more touch points across a client team, from the sales through to the account managers. Thanks to this, relationships stay with the Company rather than moving away if an individual advisor should choose to leave.

Delivering on our purpose remains at the heart of what we do and will no doubt remain so going forward, as the Group continues to thrive.



We've positioned our business for the future and are not fearful of change – we're excited about the opportunities that technology provides and look forward to driving this further in the years ahead.

Q.

Why the focus on STEM markets?

A.

Each of the markets that we operate in require skilled workers and are impacted by the global shortage in those skilled workers. Science, Technology, Engineering and Mathematics are four industries at the forefront of change, and currently there are not enough candidates with the skills necessary to fill the rapidly growing number of roles where they are required. This shortage of workers means that clients need recruitment specialists to access the best candidates; they can't find the right people just through simple online tools as they can in other industries. They also want to outsource the complexities involved with Contract workers (for example sourcing, screening, onboarding and in some cases even providing the ongoing payroll and benefits), which means the value that we can add and therefore the quality and sustainability of our revenue are better.

We have all read about the 'Gig' economy and the movement away from the 'job for life'. Fixed term contracts are prevalent across the STEM industries which positions us exceptionally well to deal with the needs of our clients and candidates, ensuring that employers find the candidates they need without the added complexity involved, and candidates have an ongoing supply of work.

Our focus on STEM is clear, but that doesn't mean that we want to be present in every STEM market; we want to focus on the best markets for SThree and each of those may have different characteristics. There is much more to come, we know which markets we want to be in and we know how we can grow in each of them.

Q.

And why is a growing mix of Contract versus Permanent work important?

A.

Contract or temporary workers typically used to be associated with blue collar work such as catering and events staff but that's no longer the case. As we move through the generations, there is a definite changing of priorities – both from a candidate's and a client's perspective. The idea of working for the same company for their working life is much less prevalent, whilst the balance between work and life has shifted. There is a drive to learn new skills, enjoy different cultures, and try new experiences. As a result, candidates are looking to take breaks from work and to live in different places. That is particularly true in the STEM market where a lot of the work tends to be project based. In our chosen sectors, specialists are required for short term assignments that they can deliver in between six months and three years and then take some time off before looking for the next challenge. Because of the skills shortage in the world, they have the power to be able to do that.

At the same time, employers are looking for greater flexibility in their workforce. They appreciate that it may come at an increased cost but the increased flexibility, and in some cases, the desire to outsource the complexity around insurance and benefits provision is why they come to us. They also know that if you don't offer Contract roles then you won't get access to the best candidates. From our perspective that's great because, amongst other things, it allows greater revenue visibility and Contract becomes very cash generative during periods of declining growth, both of which provide added resilience for the Group.

With all this being said, we still see significant opportunities within our Permanent division; it is cash generative as opposed to Contract which is cash consumptive during growth. Additionally, when placing people into management roles our candidates also become our customer, it builds a future Contractor pipeline and also ensures that we can provide a rounded service to our clients. However, you can expect the shift towards Contract to continue.

Q.

How can Innovation help you as a business?

A.

Technology is going to make an impact on our industry and we would be naïve to suggest that it will not, which is why we spend time innovating. We have seen how it has transformed the estate agency and retail industries and we are seeing the ripples of it in staffing.

There are a number of companies who have recently raised a lot of money, either privately or through public markets, and these are technology platforms which provide staffing solutions, but they're not recruitment companies and don't threaten our position. We believe that we are resilient to pure technology plays for a multitude of reasons, the most prevalent being the shortage of skilled workers in our chosen STEM markets where one size doesn't fit all and the additional services we provide that remove the complexity for our clients. However, that is not the only reason to have comfort – adding to this is our true expertise in very complex and dynamic sectors and our local understanding of our territories and the associated legislation.

Our position isn't one of simply being resilient; we want to use technology to drive our business forward. With our understanding of the recruitment world, we are ideally placed to develop systems that can make a difference in those other markets and that can open up new revenue streams for us. Where technology can help in those markets, where there are large volumes of candidates coming in and sifting through them is time consuming, pulling together a shortlist using AI, or using video to introduce candidates to clients then we can use clever automation. That is why, we have developed Showcaser and HireFirst and why we will continue to innovate.

We've positioned our business for the future and are not fearful of change – we're excited about the opportunities that technology provides and look forward to driving this further in the years ahead.

Q.

After 30 years with SThree including six as CEO you will be stepping down during 2019. How do you feel?

A.

It has been an incredible journey with the Group, starting as a trainee recruitment consultant through to being the CEO of a listed company. I'm very proud of what has been achieved and have had some fantastic experiences in that time – I started my own brand within the organisation, Huxley Associates, launched the Group in America, plus of course worked with a great team throughout. Alongside this, as CEO, we have delivered on key elements of our strategy, for example the shift to Contract and the relocation of our support teams. This delivery against our strategy has doubled the profitability of the Group.

I am very pleased to be able to say that the Group is in a strong position and is ready for a new leader. We have changed the organisational structure, making the business fit for the future and I truly believe in the team that we have in place. That team is now working to a clearly defined Purpose and has a strong set of Operating Principles to work to, within a solid infrastructure. I'm confident in the Group's continued success and look forward to watching the teams drive growth going forward.

Firmly on track to meet our future targets.

Gary Elden, OBE
Chief Executive Officer



Overview

The Group continued to make good progress throughout 2018. This resulted in a strong financial performance which, demonstrating our resilience, was delivered despite the turbulent political, market and economic pressure throughout the year. Alongside the financial metrics, we delivered further structural and operational progress which will enable us to attain our Vision of being the number one Science, Technology, Engineering and Mathematics ('STEM') recruiter in the best STEM markets. We are on track with the delivery of the five-year plan as set out at the November 2017 Capital Markets Day.

At the start of 2018, I stated that after two years of political, market and economic pressure, we entered the year in good shape. That turbulence and pressure increased throughout the year and yet we delivered a creditable performance. As we enter 2019, I believe that we are in even better shape.

The STEM markets in which we operate continue to be affected by the ongoing global shortage of skilled workers and the resulting supply and demand imbalances which underpin the need for our services.

Group gross profit ('GP') was up 12%* in the year. The growth was largely delivered, as expected, through our key territories of Continental Europe and the USA; the former was driven by our market-leading businesses in Germany and the Netherlands which together saw growth of 20%*, whilst the latter was up 8%*. We also made improvements in our other target markets, including a stand-out performance from our growing team in Japan, up 85%*. From a sector point of view, we saw robust growth across the Group, with ICT up 12%*, Life Sciences up 8%*, Engineering up 16%* and Global Energy up 30%*.

Our specialist focus on STEM and being in the right STEM markets are helping us to build a growing reputation, using a multi-brand approach where each brand is well regarded within its own specialist field. This is a key differentiator for STthree. In technology, for example, where other companies position themselves as IT specialists, we are recognised as experts in specific fields such as JAVA, Salesforce or .Net. This approach is the same across all our markets, so clients know that we can access the very best people for highly skilled positions.

The Group is globally diversified, but at the same time specialises at a local level. We can source the right people for clients in multiple territories whilst also understanding the nuances and dynamics of each individual market. These include legislative requirements where our local knowledge can help us to advise clients on choosing the right contracts and also help successful candidates navigate the necessary requirements.

The Group's central Purpose is 'Bringing skilled people together to build the future', and we have six Strategic Principles that will enable us to achieve this Purpose and generate returns for all of our stakeholders. These are:

- Grow and extend regions, sectors and services.
- Develop and sustain great customer relationships.
- Focus on Contract, drive Permanent profitability.
- Generate incremental revenues through Innovation and M&A.
- Build infrastructure for leveraged growth.
- Find, retain and develop great people.

We have made considerable progress against the majority of our Strategic Priorities. I will touch on two of them in more detail later with our Chief Sales Officer and Chief Operational Officer providing further detail on the other four aspects.

Find, retain and develop great people

One of the most pleasing aspects of the year was the ongoing development of the Group's culture. Having collectively agreed on what kind of organisation we want to be and the principles to which we would hold ourselves, it has been particularly rewarding to see adoption across the Group and the benefits are already being seen. We have a Vision that is shared across all of our operations and the mindset has noticeably changed from thinking as individuals to considering wider Group opportunities, shifting from a 'me' to a 'we' culture.

We have started to see the benefits of changes that we made about a year ago, including the appointments of Dave Rees as Chief Sales Officer and Justin Hughes as Chief Operating Officer. As anticipated, this has helped us to align our sales and operational strategies and ensure we have the right services, infrastructure and people to execute our global growth strategy and provide our customers with the best possible experience.

Pleasingly, the year's results were achieved despite the inevitable disruption caused by relocating our London-based support services to Glasgow where we have created a Centre of Excellence. All roles were fulfilled through our own recruitment teams and the project has delivered ahead of our expectations. Any disruption caused was addressed promptly and professionally and our customers experienced a smooth transition. We are delighted with the progress being made by the Glasgow team which will give us greater conversion margin and competitive advantage.

Cultural changes do not happen overnight and there is still plenty for us to do. Our Female Leadership Development Programme, *Identify*, has been running throughout the year. It was introduced to help us identify and nurture top female staff and give them the tools and support that they need to thrive, as in the past we have seen female staff as a proportion of the total drop away when they reach management levels. It has already given us greater insight, with initial feedback suggesting that female candidates will put themselves forward for a role only where they feel comfortable in executing 80% of the tasks involved in that role, whereas the corresponding figure for male applicants is 20%. Through this level of understanding we can take initiatives to redress that balance and encourage females to stay with us longer and progress further. This mirrors many of the initiatives that we are conducting externally on behalf of our clients to ensure that female talent is able to thrive in all of the STEM industries. During the year, we have seen 14 female promotions to management positions across the Group (out of 27 participants) with one to Director level.

We have made a great start in bringing our people together and encouraging them to behave in a way that is representative of our three Operating Principles, *Build Trust, Care Then Act, Be Clear Then Aim High*, providing the necessary coaching and training to help them succeed. As a result, I believe that we are becoming increasingly meritocratic and expect that trend to continue.

* In constant currency.

Generate incremental revenues through Innovation and M&A

Ours remains a people business and one which thrives on the strength of its relationships. Our clients are looking for highly skilled workers and they choose us to source them because of our specialist sector focus and expertise in all aspects of our chosen markets. As such, we believe that we are resilient to pure play technology competition that naturally suits more commoditised offerings.

At the same time, our extensive industry expertise means that we are able to develop tools that can help deliver different products for different markets, diversifying our business and opening up new revenue streams where clients and candidates are less focused on the service elements that are so important in our chosen STEM markets. During 2018, we made significant progress with both our HireFirst and Showcaser initiatives.

HireFirst is an easy to use platform that uses Artificial Intelligence ('AI') to offer candidates live matches to a diverse spectrum of roles and companies, whilst allowing companies the opportunity to market their employer brand and attract the best people. It was officially launched in beta testing in October in both Paris and London and I am pleased to say that the early results are encouraging.

Showcaser is a video platform which gives candidates the ability to highlight certain aspects of their CV, career to date or other areas that they may choose to differentiate themselves. Showcaser was exhibited at UNLEASH Amsterdam in November and, again, the feedback has been encouraging.

We would not anticipate material revenue from HireFirst or Showcaser in 2019 but do believe they have the ability to generate strong returns on investment over the medium term.

Management succession

Having been with the Company for nearly 30 years and as CEO for the last six, I shall be stepping down before the Annual General Meeting of Shareholders being held on 24 April 2019. The process for finding my successor is well underway. I am very proud of everything that we have achieved as a business in that time and, as these results demonstrate, I will be handing over the reins of a business that is in very good shape. I will be fully committed to the role until that time and work with the Board and the leadership team to ensure a smooth handover to my successor.

Outlook

At the start of 2018, I stated that after two years of turbulent political, market and economic pressure we entered the year in good shape. Despite that turbulence and pressure increasing throughout the year, we have delivered a strong set of results. Looking forward to the year ahead, our post-year end trading is in line with expectations and we remain well positioned to continue to benefit from the growth opportunities in our chosen STEM markets.

Gary Elden, OBE

Chief Executive Officer
25 January 2019