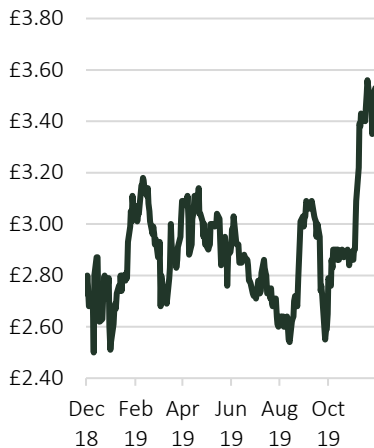


Q4 trading update – Resilient model, outperforming

1 Year Chart



SThree PLC is a research client of Radnor Capital Partners Ltd.

MiFID II – this research is deemed to be a minor non-monetary benefit

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Alex deGroot
Iain Daly

adg@radnorcp.com
id@radnorcp.com

+44 (0) 203 897 1832

The reassuring Q4 trading update capped off a positive run for SThree. The share price has responded to a combination of a well-received Capital Markets Day and a post-election peer group rally. The trading commentary around Q4 and FY2019 shows a group continuing to outperform in its key international growth markets. The tone around Q4 exit momentum was cautiously optimistic; especially in Continental Europe and USA. UK & Ireland remain challenging but there is a growing sense the macro sentiment backdrop may now ease off.

We discuss the Capital Markets Day in more detail in this note but the key themes revolved around the long terms structural trends that SThree has positioned itself to take advantage of; the relevance of the SThree business model (both revenue and economics) and overall growth ambitions and strategy looking forward to FY2024.

Even after a strong run in the share price; SThree continues to trade at a material (25%) PE discount to the peer group. The peer group has re-rated upwards sharply despite a deteriorating EPS estimate trend. Based on current consensus; SThree is now expected to outgrow the UK peer group in FY2020.

- Q4 update key highlights:** Despite a challenging macro backdrop across the year, FY2019 delivered in line with expectations. Overall, net fee growth was +5% and with adj PBT in excess of £58m, this is also a year of good margin expansion. Net cash of £11.0m was also a better than expected outcome.
- Key geographical trends:** SThree continues to perform well in its key international growth markets. DACH grew consistently through 2019 despite very tough comparatives from H2 2018. The USA also saw a strong contract performance. There are challenges in the group; UK & Ireland remains a work in progress, although sentiment should ease looking forward. Benelux is also showing signs of slowing, although contract growth remained positive.
- Capital Markets Day:** SThree hosted an in-depth investor event on 21st November; providing a deeper dive in to the structural drivers behind STEM and flexible working; the platform scale opportunity for the group and a detailed look at the fundamental economics of the contract recruitment model. The group also updated their medium-term ambitions around market share gains; margin expansion and free cashflow conversion.
- Valuation:** Based on FactSet consensus the SThree discount to the peer group has narrowed to 25% (-37% at its weakest). The strong share price run has seen SThree re-rate upwards from sub 8x PE to just under 11x. However, the peer group has also re-rated so the valuation differential remains despite the fact SThree is now expected to be the best performing (net fee and EPS growth) UK listed staffer in FY2020.

YE – November	Net Fees, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	PER x	Yield %
FY 2017A	287.7	44.5	24.7	14.0	5.6	14.0	4.0
FY 2018A	321.1	53.3	29.6	14.5	-4.1	11.8	4.1
FY 2019E	342.2	58.2	32.1	15.3	10.3	10.9	4.4
FY 2020E	357.4	62.3	34.0	15.8	22.5	10.3	4.5
FY 2020E	376.1	66.5	36.1	16.1	43.3	9.7	4.6

Source: Radnor Capital Partners

Q4 trading update & forecast changes

SThree has confirmed that FY2019 adjusted profit before tax is expected to be in line with market consensus, which is also an all-time record outcome for the Group. As it stands, the market range is £56.0m to £60.9m, with a consensus of £58.5m.

SThree net cash of £11m at 30 November 2019, is also ahead of market consensus (£7m). Taken together, we consider this full year net fee / profit / cash outcome to be a highly encouraging outcome against what has been a challenging macro sentiment backdrop.

At a headline level, we would summarise the full outturn as being good markets continuing to perform well with weaker markets remaining challenged.

Breaking down SThree FY2019 top line performance trends in more detail:

- FY2019 group net fees of £342.2m, + 5% growth YoY;
- Particularly strong growth by region in USA (+9%), Continental Europe (+8%) and APAC & MENA (+12%);
- With the exception of UK & Ireland, we see these levels of YoY growth outperforming the broader market in all of the key geographies, underlining the opportunity for SThree to make good market share gains;
- 86% of Group net fees now generated from international markets, compared to 83% for FY2018;
- Good growth in Contract with net fees up 8% YoY, in line with group strategy. Overall contract made up 74% of overall net fees (FY2018: 72%);
- Permanent net fees down 3%;
- Strongest growth by sector across Technology, Life Sciences, Engineering and Energy;
- The second half of FY2019 has seen a moderation in net fee growth since H1. This is partly due to very tough H2 FY2018 comparatives (eg, Continental Europe was up 20% YoY in Q4 2018 and up 24% in Q3 FY2018), but also some froth coming out of what had been very strong markets. Encouragingly, the exit momentum in the key contract markets was solid single digit.

Contract net fees of £254.4m, +8% YoY, 74% of group net fees

FY2019 saw good growth across all the key STEM industry sectors with Energy +16% YoY, Engineering +11% YoY, Technology +7% YoY and Life Sciences +5% YoY. Banking & Finance continued to struggle -13% YoY, driven primarily the UK & Ireland.

By region, contract net fee growth was driven by Continental Europe (+11% YoY), largely due to Technology growth in the key DACH market. The strong performance from DACH was delivered across the year with each quarter up on the prior year despite very strong comparatives. It was also notable that Germany saw growth across all target industries, including Banking & Finance. A key feature of SThree's position in Germany is the overweight focus on small and medium sized enterprises compared to the larger, heavyweight industrial names. Management are clear on their view that SThree continues to materially outperform the German recruitment market.

Elsewhere in Europe; Benelux has seen a moderation of growth throughout FY2019 but despite a touch market backdrop (Netherlands IT recruitment market was down 6% overall), SThree has continued to see growth (+4% YoY in Netherlands in Q4 2019).

USA was also a notable performer with contract growth + 17% YoY driven by Energy and Life Sciences. Continental Europe and USA combined now represent 81% of Contract net fees.

Permanent net fees £87.8m, -3% YoY, 26% of group net fees

DACH saw good growth of 5%, with Continental Europe flat overall. APAC & MENA saw growth of 16% driven by excellent performance in Japan. Weaker perm markets were in the USA (-11% YoY) reflecting previously reported leadership and strategic changes made in 2018 and the UK & Ireland (-18% YoY).

Perm, as previously discussed, is an important part of the SThree 'solutions set' but has very different top down drivers and business model to contract.

Group period end sales headcount +6% YoY

Overall, contract sales headcount grew +7% YoY, in-line with strategy, while permanent grew +2%. As a result, Contract now accounts for c70% of total sales headcount. Sequentially vs Q3, period end Group sales headcount was up 1%. Average group sales headcount for the year +7% with Continental Europe up 8% and USA up 11%. Management have re-affirmed their commitment to growing headcount in the key growth markets and focusing on productivity in the others.

Q4 trends

Q4 is always the biggest trading period for SThree. Q4 19 group net fees grew +1% YoY on a constant currency basis. This relative slowdown principally reflects tougher YoY comparatives in key markets such as Germany and Benelux, which account for c.50% of net fees. Looking beyond the optical effect of tough comparatives; management have spoken to encouraging exit momentum in key markets and a contract renewal rate ahead of the prior year.

A Q4 2019 decline of 11% YoY in the UK represents another consecutive quarter of YoY declines. However, there are perhaps now grounds for more optimism around the macro and political backdrop, and further management changes have been made in UK to refocus the business. Although the UK has not been a positive contributor to the group for a while; it is a relatively small part of the overall group picture (c.14% of group net fees) and its relative over-exposure to the financial services sector have left it overly sensitive to macro led weakness over the last two years.

Elsewhere, fee growth slowed to just 1% in Continental Europe in Q4, reflecting tougher YoY comparatives in Germany, and a slowing Netherlands market (although SThree continue to see positive growth). The US remains strong (+5%), benefiting from 17% growth in contract, albeit partially offset by a drag from Perm (-11%). Banking and Finance remains the most challenged sector overall, reflecting wider well-reported industry pressures.

As a result of the Q4 performance, FY19 group fees increased by 5% YoY. Contract fees increased by 3% in Q4 while perm declined by 4% (FY +8% and -3% respectively).

In terms of balance sheet, SThree remains in a strong financial position, with net cash of c£11m (2018: Net debt £4m). This is fractionally better than we had modelled. As a reminder, H1 net debt was £8m.

We estimate at this stage the strong cash conversion is a dual function of improved working capital management, together with slightly slower organic growth. This latter factor reflects the counter-cyclical nature of the contract led net working capital investment, which should absorb less up-front cash investment as organic growth moderates. As a reminder, the group has a £50m revolving credit facility.

Forward looking outlook

Investors will be aware that SThree has a unique business profile amongst its staffing peers, in terms of its STEM and contract exposure and long-term ability to add value to clients and ‘in demand’ candidates. Nevertheless, macro uncertainty has been an overhang on staffing market activity levels for some time. In this context, we are more than reassured by the tone of management commentary on FY2020.

CEO Mark Dorman stated;

‘the new financial year has started well with good demand, and this gives us confidence that we will continue to outperform materially in international markets’

Subsequent to this FY 19 trading update, the UK general election outcome should be seen as a positive. Whilst this is only one factor to bear in mind for the group at large, it should provide a less challenging operating backdrop for SThree’s UK & Ireland business.

Forecasts

We have tweaked our own SThree estimates for the various geographical and sector mix effects described in the pre close update (organic slowdown in Europe outside of DACH offset by a good performance in the US). See the table below for further detail. At the headline level, there is no material change to our FY2020 PBT / EPS estimates at this stage other than a recognition that average FX rates have moved against SThree and are likely to create a minor headwind.

The most material changes to our estimates have come at the net cash line as the business model effect of moderating growth releases cash out of working capital along with tight working capital management. Clearly, if organic growth tracks back to recent levels, natural working capital absorption will see net cash estimates fall back.

We are mindful of factors outside the company’s direct control, not least FX volatility, so extrapolating the Q4 2019 exit trends at this early stage feels premature, despite the confidence of CEO Mark Dorman in the forward looking outlook. Our headline net fee growth expectation of 4.4% for FY2020 over FY2019 is below recent trends and sits below the CMD FY2024 overall ambition. At this point in the cycle, we believe this is a prudent approach. Anything approaching the CMD growth and conversion ratio ambitions will see these estimates well beaten.

Changes to SThree FY2020 and FY2021 estimates

	FY2020			FY2021		
	Old	New	Δ%	Old	New	Δ%
Europe	217.8	206.5	-5%	230.9	218.9	-5%
North America	74.9	82.1	+10%	77.9	87.0	+12%
UK & I	49.4	46.7	-6%	49.7	46.7	-6%
Asia Pacific	20.0	22.1	+11%	21.0	23.5	+12%
Group Net Fees	362.1	357.4	-1%	379.5	376.1	-1%
EBIT / NFI %	17.5%	17.5%	-	17.7%	17.7%	-
Adj. PBT	63.2	62.3	-1%	67.2	66.5	-1%
Adj. EPS (p)	34.5	34.0	-1%	36.5	36.1	-1%
Dividend (p)	15.8	15.8	-	16.1	16.1	-
Net Cash	17.1	22.5	+32%	38.7	43.3	+12%

Source: Radnor

Capital Markets Day – Lifting the lid on an under appreciated model

SThree hosted a capital markets day on 21st November 2019. The event provided an opportunity for Mark Dorman (CEO); Alex Smith (CFO) and other senior management to give investors and analysts a clear view of the growth markets the group is focused upon; the STEM opportunity in those markets and the key drivers of SThree's differentiated business model. The CMD was also an opportunity to assess how SThree has delivered against previous targets and to outline the key ambitions for the group over the next five years. The full details of the CMD (including video and presentations) can be found at the SThree website ([link here](#)):

Below, we draw out the key themes from the Capital Markets Day.

- **Fundamental proposition**

The core message of the event came across clearly. SThree sees itself as the only global, pure play STEM staffing specialist. The geographical focus revolves around building, or maintaining, leading positions in the key global STEM markets. The differentiated business model, with its emphasis on flexible working, is designed to best fit the opportunities within those markets. The CMD went to great lengths to position both the STEM and contract focus as being at the intersection of two, long term structural trends around growth in STEM recruitment and the growth in flexible working.
- **Growth in STEM**

This is perhaps the most obvious growth trend SThree is targeting. We take it as a self evident truth that digital, technology and scientific transformations are here to stay and that the skills required to deliver these transformations are harder to come by. This conjunction of growing demand yet limited supply creates an earnings sweet spot for STEM practitioners. SThree's fundamental premise, which we struggle to find fault with, is that STEM recruitment growth should outstrip broader recruitment growth over the medium to longer term and that STEM candidates will command higher salary levels.
- **Growth in flexible working**

SThree argues that not only is flexible working a growth trend throughout the modern workplace; but that it is the most relevant staffing model within STEM disciplines in particular. The CMD saw SThree reel out a number of third party proof points pointing to an increasing proportion of the global recruitment shifting towards contingent / flexible employment models with STEM disciplines (programming, engineering, R&D) lending themselves to specific project work. The CMD also highlighted that these STEM disciplines themselves generate materially higher than average salary levels, which is a key driver of value for SThree.
- **Geographical focus**

Investors expecting the CMD to be a grand unveiling of an aggressive, multi-territory expansion strategy would have been dissatisfied. This is perhaps where SThree has moved on from the past, where the approach to geographical expansion was not always the most scientific. However, SThree has still found itself with strong positions in not only the leading STEM markets but also markets which are themselves highly fragmented and offer attractive organic growth opportunities.

For example, in the Netherlands, where SThree is the Number 1 STEM recruiter, SThree's STEM market share is only 6.8%; in Germany (SThree's largest market), SThree is a Top 3 player yet has a STEM market share of only 5.0% and continues to outgrow the competition. The starkest opportunity is in the USA, the largest staffing market in the

world, where SThree has a STEM market share of only 0.6%. SThree's stated ambition of doubling its market share to 1.3% (resulting in an incremental c.£220m of gross revenue) in the USA would result in SThree just making the Top 25 list of overall recruiters (current rank 63) and just into the Top 10 STEM recruiters (currently rank 22).

The CMD made it clear that management see the risk / reward profile being the most favourable in driving market share where they already have established brands and local market knowledge of both candidates and customers.

- **Platform opportunity**

Although SThree's operating brands serve distinct and niche end markets, it does so as a global business. This is the element of story that is evolving the most rapidly and where the CMD highlighted a material value opportunity that will be newer to investors. The ability of SThree to increasingly service and fulfil customer needs through central functions will reduce both the cost of delivery as well as liberating the front office to focus more on the top line (candidate sourcing and winning new customers). Disconnecting top line growth from operating costs is a key driver of the scale opportunity outlined in the CMD and forms the basis of the conversion ratio ambition.

- **Business model and financial returns**

Arguably the biggest barrier for SThree has been the broader perception of the company relative to a well established but fundamentally very different peer group in the UK. SThree's differentiation boils down to two key points;

1. **Deliberate specialism in a narrower group of target industries.** All of SThree's UK peers are fundamentally generalist in their approach, serving a broad spread of target industries. SThree's end markets are specialist and candidate CV requirements are high.
2. **Emphasis on contract over permanent.** SThree is, by some distance, the most contract exposed UK staffing group. Judging by the consistency of the SThree valuation discount over the last five years; we see this as the largest single point of contention with investors. The CMD explored this contract vs permanent dynamic in detail. The SThree thesis is simple; the contract staffing model is the most relevant for STEM markets and offers the most attractive economics

Value Premium. The STEM contract candidates that SThree places are higher value than their permanent equivalent; both in terms of their absolute earnings (the average SThree contractor earns an annual equivalent income of c.£100k), and the value of the net fees generated for SThree (40% higher on average than SThree's permanent candidates). This STEM premium does not map across other sectors in the same way and goes a long way to explaining the long held perception of contract being the "poor cousin" to perm.

Working capital investment. In the contract model, fees are earned over the duration of a placement and are not received up front as they are in the permanent model. Put simply; as SThree grows it will absorb working capital investment, while for others the cash is received up front. However, the critical point that we feel is often misunderstood out in the market is that this not a case of the permanent generating more cash than contract; the cash is simply being received earlier.

Why does this matter? The CMD made two points clearly. Firstly, this working capital investment provides a higher degree of forward visibility than is the case in permanent heavy models. The CMD highlighted two financial metrics that underline this point very powerfully;

- 1) H1 2019 net working capital position was £95.2m (c.20% of the current market cap) representing contract revenue booked but not yet received from corporate customers; in effect a deferred cash position. Critically for SThree, this does not factor the likelihood that candidates extend their placement (on average an SThree contractor will extend twice) or that they will be successfully placed at a new customer when their existing placement comes to an end (SThree has the competitive advantage of complete candidate visibility here). This is a very different dynamic to a permanent recruiter who has to reinvent the wheel after every successful placement;
- 2) The contract “order book” (defined as the value of net fees outstanding over the life of outstanding projects at the start of each financial year) has grown consistently and at the start of FY2019 stood at £94.6m, or 28% of the FY2019 final net fee outcome, equating to c.3 months visibility.

The second key reason why this working capital investment matters is the competitive barrier to entry it creates. Growing a contract business takes capital and therefore rewards scale. The “three men and a rolodex” staffing model that permeates the permanent space is much less visible in contract.

For the first time at the CMD; SThree lifted the lid on the working capital metrics and profiles for some of its leading markets. It is unusual to hear a recruitment business talking in detail about internal rates of return (ranging from 17% to 40%) and net present values but this is the logical extension of the SThree business model, where optimising returns on working capital investment is one of the key strategic value levers that management can pull on.

SThree’s cash generation track record is often highlighted by critics as being poor relative to the peer group. One of the most powerful slides in the CMD pack was an aggregated cash-flow from FY2014 to FY2018. Put simply this shows SThree converting £211.4m of operating profit into £209.5m of operating cash-flow (a more than respectable 99% conversion ratio). Deducting £53.8m of tax and £2.5m of interest, leaves £153.2m of free cash-flow (a 72% conversion ratio). This free cash-flow has funded £89.5m of dividend payments; £32.9m of capital expenditure (offices and software primarily) and £24.6 of restructuring costs (the Glasgow Centre of Excellence being a large component of this), where the full benefits have not yet fully accrued.

■ **Ambition**

The final message from the CMD was around the growth, financial return and societal ambitions over the next five years.

1. **Market share.** Rather than trying to predict the unpredictable and second guess the broader cycle, SThree management have refocused their top line growth ambitions around market share growth in their existing key markets from an aggregate 2% as at the end of FY2018 to 3% by FY2024. This implies two bites at the growth cherry; firstly, STEM growth outstripping broader recruitment growth (consistent with a well established trend) and, second, SThree continuing to outgrow the STEM market itself. However, to illustrate the point and if we assume

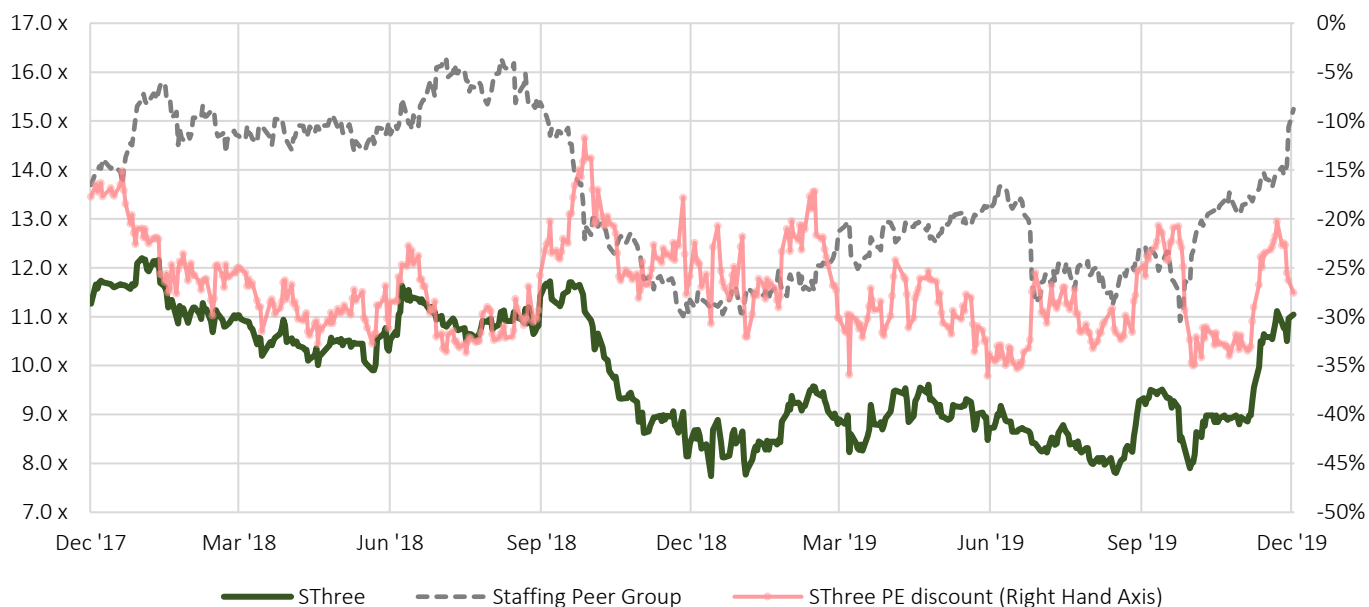
a flat STEM market out to FY2024, this market share ambition implies a gross revenue CAGR of 8%.

2. **Conversion ratio.** Consistent with the vision of SThree as a platform business generating scale returns; the conversion ratio of net fees into EBIT is targeted at an FY2024 range of between 21% - 24%. The conversion ratio in FY2018 was 16.8%. To illustrate the effect, if achieved, the current consensus estimate for EBIT in FY2019 is c.£59.0m at a conversion ratio of 17.2%. The low end of the target range would imply an FY2019 EBIT of £72.3m, an uplift of £13.3m (+22%).
3. **Free cash-flow conversion.** The more disciplined approach to working capital investment, combined with the service and fulfilment efficiencies from the central platform should see the growth of net working capital investment lag gross revenue growth. The metric which will capture this in its entirety will be the free cash-flow conversion ratio, which is targeted to be at least 75% by FY2024 compared to an average 72% over the last four financial years.

Relative valuation – Discount maintained despite operational outperformance

In the chart below, we show SThree’s prospective PE relative to the immediate peer group average (Hays, Page & Robert Walters) over the last 24 months.

SThree prospective PE relative to Staffing peer group – last 2 years

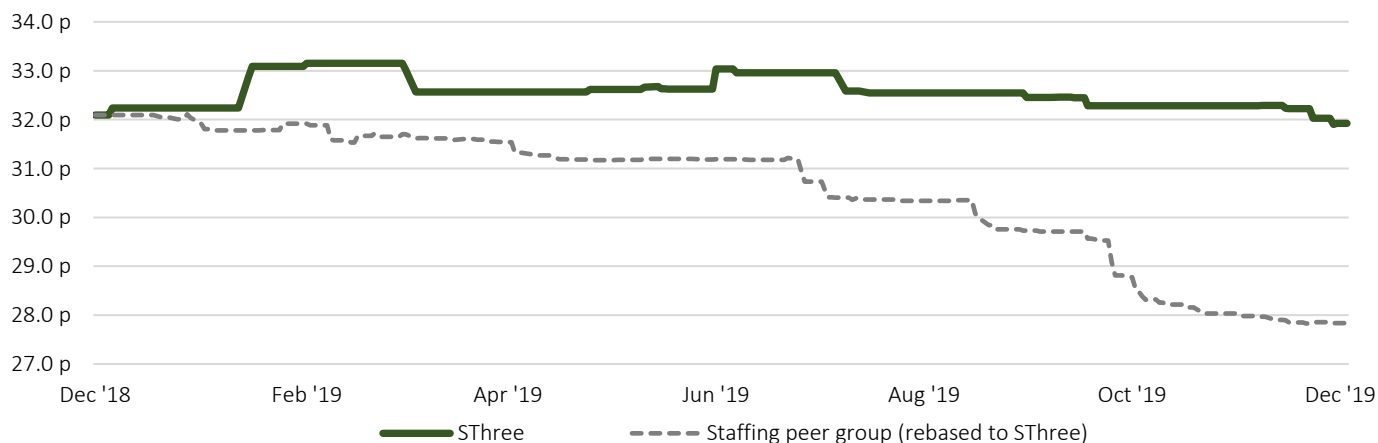


Source: FactSet, Radnor

This chart shows the extent to which both the peer group and SThree have re-rated positively since mid-October. Although the SThree peer group discount has narrowed considerably from its 35% low in early October; this has come back to the mid-20% with the post-election bounce favouring the more domestically weighted peers.

Looking at the SThree forward multiple in isolation; the recent re-rating from sub 8.0x PE to just under 11.0x does feel substantive, coming off the back of a well-received Capital Markets Day and reassuring trading commentary.

SThree prospective EPS consenses estimate trend vs Staffing peer group



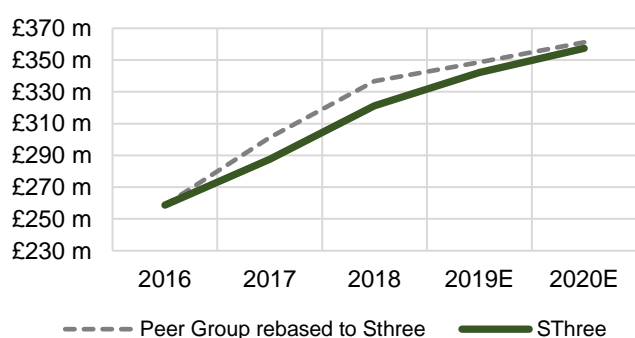
Source: FactSet, Radnor

Interestingly, the evidence suggests the broader peer group re-rating has been sentiment rather than data led. In the charts above, we show the FY1 consensus EPS estimate trend for SThree through the course of 2019. We plot against that the equivalent estimate trend for the peer group average (rebased to SThree for illustrative purposes).

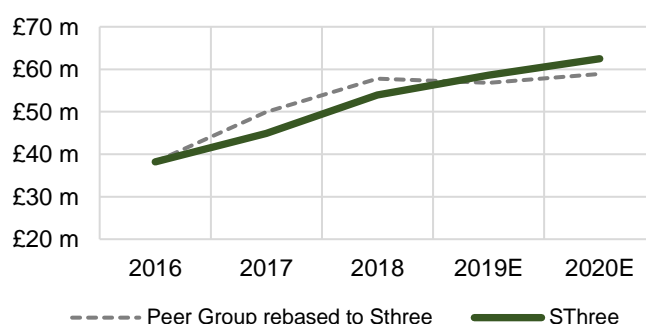
The message is clear; the peer group re-rating trend is not backed by EPS expectations, which have been on a decelerating trend through 2019.

So how does SThree currently stack up relative to the peer group in terms of consensus expectations? The following charts show the recent track record and consensus estimates for Net Fees, EBIT and EPS growth and conversion ratio for SThree relative to the peer group average. In all cases we have rebased the peer group average to SThree for illustrative purposes.

UK Staffers – Net Fee growth (rebased to SThree)

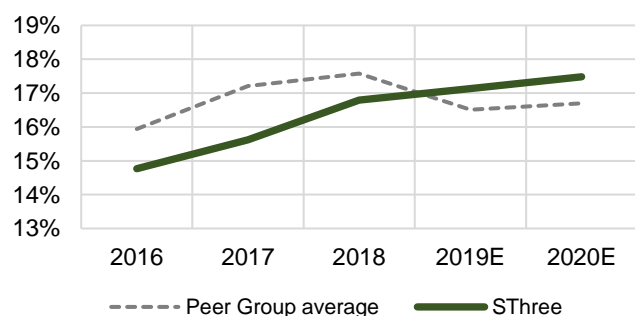


UK Staffers – EBIT Growth (rebased to SThree)

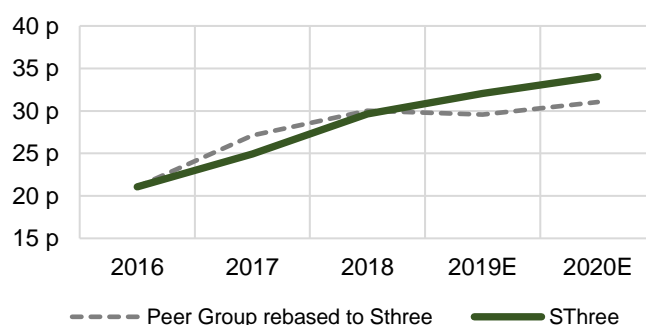


Source: FactSet, Radnor

UK Staffers – EBIT margins (rebased to SThree)



UK Staffers – EPS Growth (rebased to SThree)

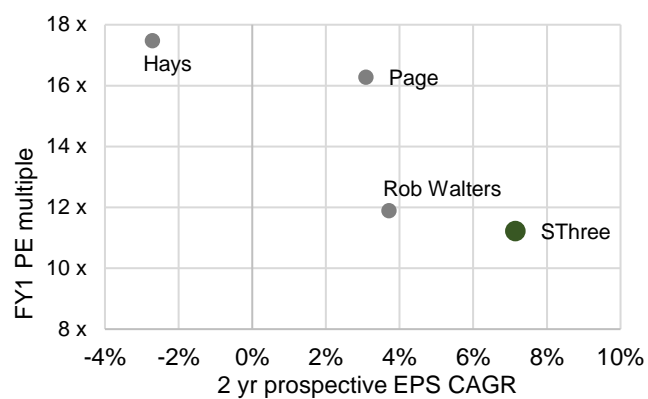


Source: FactSet, Radnor

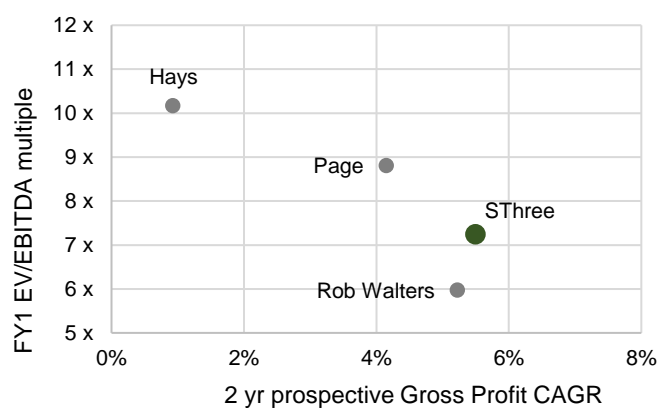
We can see that for EBIT growth, EBIT margins and EPS growth, SThree is now tracking ahead of the peer group. It is worth noting that this is due primarily to a steady downgrading of expectations across the peer group rather than upgrades for SThree.

So how has this trend played out in terms of individual spot valuations amongst the immediate peer group?

UK Staffers - EPS Growth vs PE multiple



UK Staffers – Net Fee Growth vs EV/EBITDA



Source: FactSet, Radnor

We can see from an EPS growth perspective, SThree is now expected to be the top performer (by some distance) and yet continues to offer the lowest PE multiple. This is despite the reassuring tone of the latest trading update and an encouraging start to the new financial year.

Similarly, when comparing net fee growth, SThree sits at the top of the peer group chart yet trades at a material EV/EBITDA discount to both Page and Hays. Only Robert Walters is cheaper on this metric although it expected to deliver slower net fee growth than SThree.

Key Points – Investment Case

Market Blues

SThree has found itself in the strange position of delivering consistent in-line trading news-flow against a negative sentiment backdrop. Recent share price movements across the peer group do suggest that investors are taking a more “risk on” approach to the peer group. This has benefited SThree but also others despite their short-term expectations being weaker.

Positive Trading

The Q4 update confirmed a good result for FY2019 and an “encouraging” start to FY2020. Although not immune to macro headwinds; SThree does enjoy higher levels of visibility compared to its Perm heavy peers. With growth looking promising in Europe and the US; any easing in the macro environment in the UK could make all the difference.

Non-UK Exposure

86% of FY19 net fees were generated **outside** of the UK. A key driver of SThree’s positive operating performance has been exposure to fast growing and structurally attractive geographies such as **Germany, North America** and Japan.

STEM

SThree have a clear ambition of becoming the **Number 1** STEM talent provider in the best STEM markets. STEM (Science, Technology, Engineering and Maths) industries are structurally attractive; **1)** good headline growth, **2)** subject to rapid technology impacts, and **3)** exposed to specific skills shortages. STEM markets also lend themselves to SThree’s niche specialist approach where barriers to entry are higher than more generalist staffing markets.

Contract

SThree stands out vs the peer group through its weighting towards Contract (76% of FY19 net fees) relative to Permanent (24% of net fees). This is driven by Contract being the most relevant model for STEM industries. However, Contract offers other positive economic characteristics; **1)** higher lifetime value, **2)** enhanced visibility and quality of earnings, **3)** higher barriers to entry and, **4)** deeper client relationships. The cost is a higher level of up-front working capital investment compared to Permanent, itself a significant barrier to entry.

Investor Focus

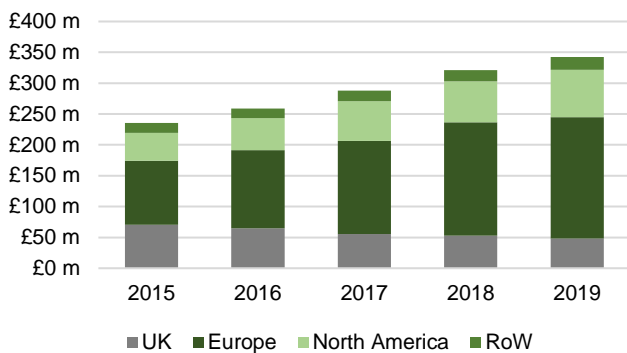
We believe investors have focused disproportionately on the performance of SThree’s Permanent business in the UK, which is important but not the key value driver. The fundamental differences in business mix and strategic focus between SThree and its peers, in our view, continues to be ignored. SThree is also paying the price for defending its dividend since 2012, when the easier choice may have been to reduce. The cash-flow resilience of the Contract model, compared to Permanent, is a key factor here but has yet to be rewarded by the market.

Valuation

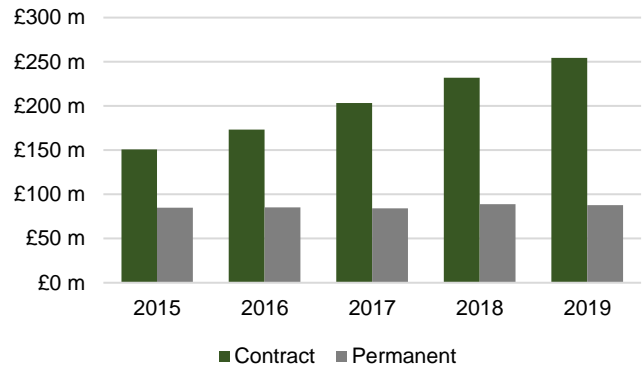
Over the last two years, SThree has traded within a 10% - 35% PE discount range to the immediate peer group. The discount has narrowed but remains in excess of 20%, which we question. We believe SThree is less exposed to the headline cyclical risks to be found elsewhere, which is now recognised by consensus expectations across the peer group. SThree is expected to be the fastest growing UK listed staffer in 2020, yet remains the cheapest.

SThree - Key charts

Geographic Net Fees 5 year track record



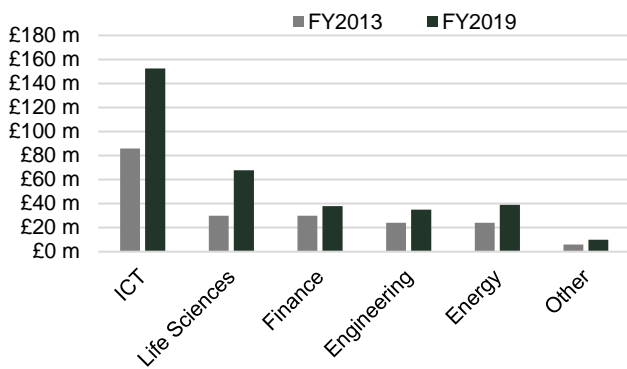
Contract / Perm Net Fees 5 year track record



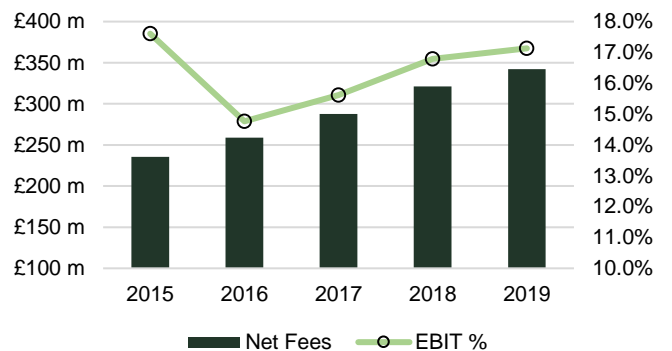
Source: FactSet, Radnor

Source: FactSet, Radnor

STEM market Net Fees 2013 vs 2018



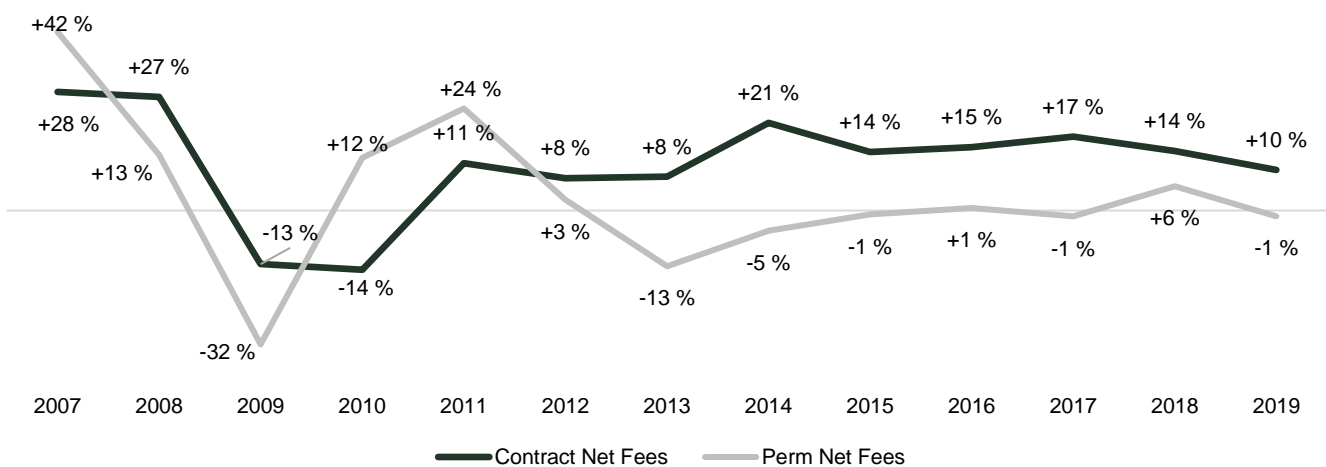
Net Fees and EBIT margins 5 year track record



Source: FactSet, Radnor

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SThree Net Fees YoY growth – Contract vs Permanent



Source: Radnor

Key Estimates

SThree PLC

Alex deGroot / Iain Daly
+44 203 897 1832
id@radnorcp.com

Price (p): 350 p
Market Cap: 468 m
EV: 472 m

PROFIT & LOSS

Year to 31 November, £m	2016	2017	2018	2019E	2020E	2021E
Group Sales	960.0	1,114.5	1,258.2	1,352.6	1,418.3	1,498.2
Europe	126.8	150.6	183.4	196.7	206.5	218.9
UK	64.7	55.7	53.1	48.1	46.7	46.7
North America	51.7	64.4	66.7	76.7	82.1	87.0
Asia Pacific	15.5	17.0	18.0	20.7	22.1	23.5
Group Net Fees	258.7	287.7	321.1	342.2	357.4	376.1
Op. Exp.	(214.8)	(237.0)	(261.1)	(277.2)	(288.4)	(302.7)
EBITDA	43.9	50.7	60.1	65.0	69.0	73.3
Depr & Amort	(5.7)	(5.7)	(6.1)	(6.4)	(6.5)	(6.7)
EBITA - Adjusted	38.2	44.9	53.9	58.6	62.5	66.6
Associates & JV's	-	(0.1)	0.1	0.1	0.2	0.2
Net Bank Interest	(0.5)	(0.3)	(0.7)	(0.5)	(0.4)	(0.3)
PBT - Adjusted	37.7	44.5	53.3	58.2	62.3	66.5
Non Operating Items	-	(6.7)	(8.3)	-	-	-
Other Financial Items	-	-	-	-	-	-
PBT - IFRS	37.7	37.8	45.0	58.2	62.3	66.5
Tax - Adjusted	(9.9)	(11.4)	(13.9)	(15.1)	(16.2)	(17.3)
Tax rate - Adjusted	26.3%	25.6%	26.0%	26.0%	26.0%	26.0%
Minority interests	-	-	-	-	-	-
No. shares m, diluted	132.0	132.6	133.1	134.4	135.4	136.4
Adj EPS (p), diluted	21.1	24.9	29.6	32.1	34.0	36.1
Total DPS (p)	14.0	14.0	14.5	15.3	15.8	16.1

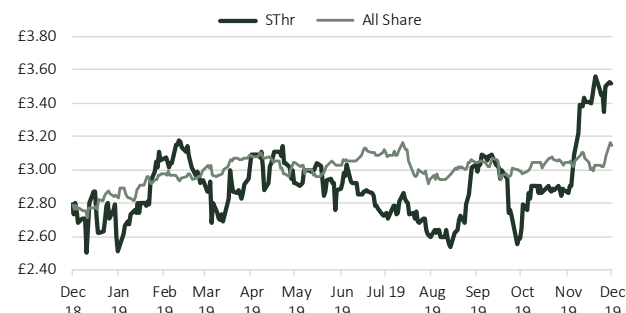
CASH FLOW

Year to 31 November, £m	2016	2017	2018	2019E	2020E	2021E
EBITDA	43.9	50.7	60.1	65.0	69.0	73.3
Working Capital	(4.3)	(16.4)	(25.3)	(15.7)	(16.7)	(8.6)
Provisions / Exceptionals	2.6	5.8	(4.7)	8.0	5.0	3.0
Gross Op Cashflow	42.2	40.1	30.1	57.3	57.3	67.7
Cash Tax	(8.5)	(10.9)	(14.4)	(13.9)	(15.1)	(16.2)
Cash Interest	(0.5)	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)
Net Op Cashflow	33.2	28.9	15.2	43.1	41.8	51.1
Capex	(6.1)	(5.8)	(5.2)	(6.0)	(6.0)	(6.0)
Free Cashflow	27.1	23.1	10.0	37.1	35.8	45.1
Dividends	(18.0)	(18.0)	(18.0)	(19.3)	(20.6)	(21.4)
Acquisitions & Inv.	(0.7)	(1.2)	-	-	-	-
Other Non Operating	(4.6)	(8.3)	(2.0)	(3.0)	(3.0)	(3.0)
Net Cashflow	3.8	(4.4)	(10.1)	14.8	12.2	20.7
Net Cash (Debt)	10.0	5.6	(4.5)	10.3	22.5	43.3

BALANCE SHEET

Year to 31 November, £m	2016	2017	2018	2019E	2020E	2021E
Intangibles	11.6	11.4	9.6	9.6	9.6	9.6
P,P+E	7.1	6.7	6.9	7.3	7.8	8.5
Tax Asset & Other	3.2	6.0	4.7	4.7	4.7	4.7
Total Fixed Assets	21.9	24.1	21.3	21.7	22.2	22.9
Current Assets	193.9	228.1	288.4	304.4	326.1	344.3
Current Liabilities	(149.2)	(174.9)	(202.3)	(202.6)	(207.7)	(217.3)
Net Current Assets	44.7	53.2	86.1	101.8	118.4	127.1
Long Term Liabilities	(0.9)	(2.2)	(1.6)	(1.6)	(1.6)	(1.6)
Net Cash (Debt)	10.0	5.6	(4.5)	10.3	22.5	43.3
Net Assets	75.7	80.7	101.3	132.2	161.6	191.6

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
JO Hambro Cap Mgmt	9.7%
SThree Founders	7.6%
Harris Assoc	5.4%
Allianz Global	5.4%
M&G	4.8%
Wellington Mgmt	3.4%
Chelverton Asset Mgmt	3.4%
Total	39.7%

Announcements

Date	Event
December 2019	Q4 trading update
November 2019	Capital Markets Day
September 2019	Q3 trading update
July 2019	H1 results FY 2019
June 2019	Q2 trading update
March 2019	Q1 trading update

RATIOS

	2017	2018	2019E	2020E	2021E
RoE	41.0%	39.0%	32.6%	28.5%	25.7%
RoCE	59.6%	51.1%	48.2%	45.1%	45.1%
Asset Turnover (x)	0.1x	0.1x	0.1x	0.1x	0.1x
NWC % Revenue	16.5%	28.2%	26.7%	26.8%	22.3%
Op Cash % EBITA	89.2%	55.8%	97.8%	91.7%	101.6%
Net Debt / EBITDA	0.2x	0.1x	-0.1x	0.2x	0.3x

VALUATION

Fiscal	2017	2018	2019E	2020E	2021E
P/E	14.0x	11.8x	10.9x	10.3x	9.7x
EV/EBITDA	9.3x	7.9x	7.3x	6.8x	6.4x
Div Yield	4.0%	4.1%	4.4%	4.5%	4.6%
FCF Yield	4.9%	2.1%	7.8%	7.6%	9.6%
Net Fees growth	11.2%	11.6%	6.6%	4.4%	5.2%
EPS growth	18.4%	18.9%	8.1%	6.2%	6.0%
DPS growth	0.0%	3.6%	5.5%	3.3%	1.9%

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*Radnor Capital Partners Ltd
27 Clements Lane
London
EC4N 7AE*

www.radnorcp.com

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