

## 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.**

19<sup>th</sup> July 2021

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The previous quarterly net fee updates had shown the extent of the net fee recovery SThree has experienced so far in FY21, but the real story of the H1 results is the improving conversion ratio driven by significant productivity gains and improving business mix (ECM now 31% of contract net fees). Critically, both net fees and PBT are now tracking ahead of the FY19 comparative, which underscores the strength of the recovery.

For the third time this year we are upgrading our estimates with FY21 net fees / PBT increasing by 4% / 9% respectively. We would have pencilled in a stronger upgrade but for lingering concerns over Covid tail risks, contractor working day adjustments and a moderate degree of H2 productivity reversion. Looking forward, there is no doubt that the risks to estimates remain on the upside, especially looking at net fees. We are mindful that the likely headcount rebuild through H2 FY21 and H1 FY22 could impact FY 22 productivity and this is driving a smaller 4% / 5% upgrade to our FY22 net fees / PBT estimates.

Year to date, SThree has materially outperformed both the peer group and the broader market and we see little to suggest that this trend will not be maintained. The valuation gap to the peer group has narrowed dramatically as SThree's structural growth positioning and quality of earnings has clearly resonated.

- **Net fees:** +10% YoY and +3% vs FY19. DACH and the USA are the stand-out territories, +16% and +24% respectively on FY20. Life Sciences and Technology were key drivers in both territories. EMEA excl DACH saw a very strong Q2 (+9%) follow a weaker Q1 (-11%), delivering -2% overall YoY.
- **Margins recovering sharply:** Overall operating expenses only increased 1% YoY, reflecting lower headcount levels offset by higher variable staff costs and increasing technology investment. This delivered a +700 basis point improvement in the conversion ratio to 17% (FY20 10% and FY19 15.1%).
- **Further estimates upgrades:** We are upgrading our FY21 net fee / adj PBT estimates by +4% / +9% respectively. Our FY22 net fee / adj PBT estimates have also increased by +4% / +5% respectively.
- **Valuation discount is narrowing:** On a FY22 basis, the SThree PE discount to the peer group has broken out of its 20% - 35% range and now stands at 12%. We continue to believe a valuation premium to the peer group can be justified; not just as a result of outperformance through the pandemic but through the combination of structural growth characteristics and steady evolution of the SThree model away from the more transactional peer group.

November, £m	Net Fees	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2018A	321.1	53.3	29.6	14.5	-4.1	15.8	3.1
FY 2019A	338.0	59.1	32.3	5.1	10.6	14.5	1.1
FY 2020A	308.6	30.1	13.5	5.0	49.9	34.8	1.1
FY 2021E	336.4	50.1	23.9	8.8	58.0	19.6	1.9
FY 2022E	355.1	54.4	25.9	9.6	64.2	18.1	2.0

Source: Radnor Capital Partners

In Figure 1 below, we detail our estimate changes post the H1 results.

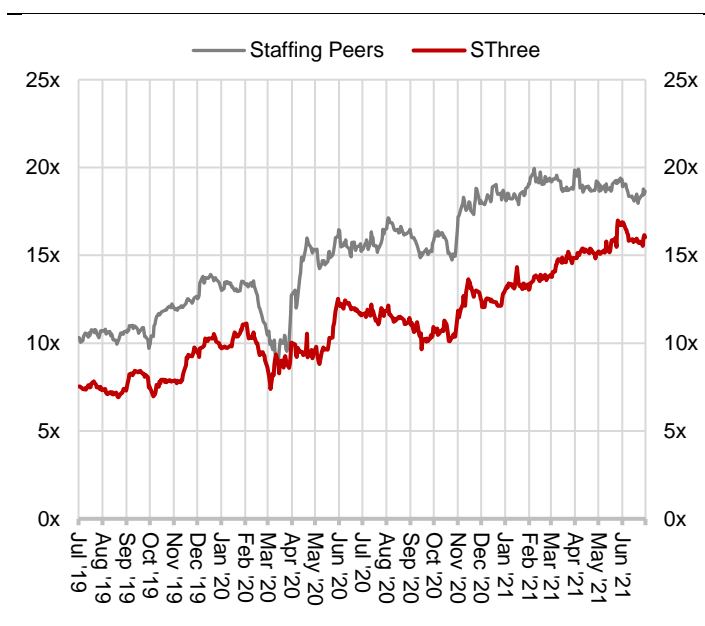
**Figure 1: Radnor estimate changes**

	FY'20A	Previous		New		Estimate Change, %	
		FY'21E	FY'22E	FY'21E	FY'22E	FY'21E	FY'22E
<b>Group Gross Revenue</b>	<b>1,202.6</b>	<b>1,271.9</b>	<b>1369.9</b>	<b>1,319.1</b>	<b>1,420.5</b>	<b>+ 4%</b>	<b>+ 4%</b>
EMEA (ex DACH)		121.3	127.4	126.0	132.3	+ 4%	+ 4%
DACH		109.1	114.6	116.4	122.2	+ 7%	+ 7%
USA		85.5	91.7	85.5	91.7	+ 0%	+ 0%
APAC		8.3	8.8	8.5	8.9	+ 2%	+ 2%
<b>Group Net Fees</b>	<b>308.6</b>	<b>324.3</b>	<b>342.5</b>	<b>336.4</b>	<b>355.1</b>	<b>+ 4%</b>	<b>+ 4%</b>
<b>EBITA</b>	<b>31.3</b>	<b>46.9</b>	<b>52.6</b>	<b>50.9</b>	<b>55.2</b>	<b>+ 9%</b>	<b>+ 5%</b>
- margin %	10.1%	14.5%	15.4%	15.1%	15.5%		
<b>Adj. PBT</b>	<b>30.1</b>	<b>46.1</b>	<b>51.8</b>	<b>50.1</b>	<b>54.4</b>	<b>+ 9%</b>	<b>+ 5%</b>
<b>Adj. EPS (p)</b>	<b>13.5</b>	<b>22.0</b>	<b>24.7</b>	<b>23.9</b>	<b>25.9</b>	<b>+ 9%</b>	<b>+ 5%</b>
Dividend (p)	5.0	8.1	9.2	8.8	9.6	+ 9%	+ 5%
<b>Net Cash (Debt)</b>	<b>49.9</b>	<b>55.0</b>	<b>60.0</b>	<b>58.0</b>	<b>64.2</b>	<b>+ 5%</b>	<b>+ 7%</b>

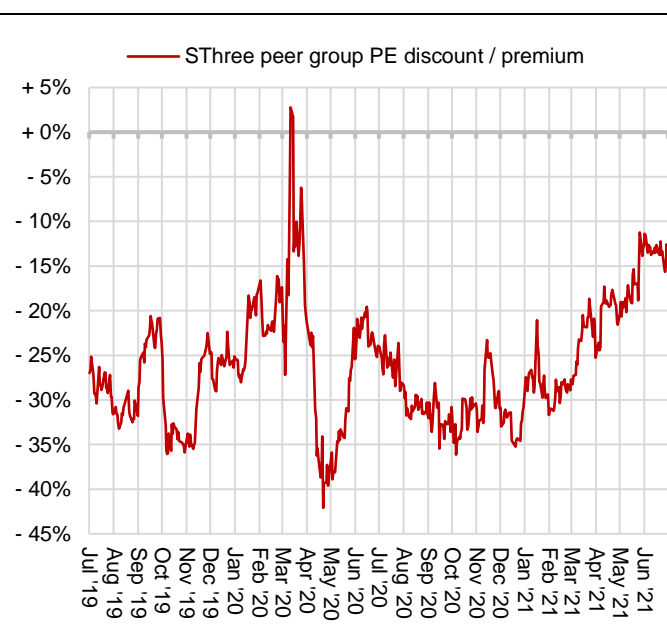
Source: Radnor

In Figure 2 & 3 below, we show the evolution of the two-year prospective PE multiple for both SThree and the Recruitment peer group in the UK (Hays, Page, Robert Walters). We also show the evolution of the SThree PE discount / premium.

**Figure 2: 2 Year prospective PE multiple**



**Figure 3: SThree PE discount / premium**



Source: FactSet, Radnor

## SThree PLC

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Price (p): 469 p  
Market Cap: 624 m  
EV: 574 m

## PROFIT &amp; LOSS

Year to 31 November, £m	2018	2019	2020	2021E	2022E
<b>Group Sales</b>	<b>1,258.2</b>	<b>1,324.7</b>	<b>1,202.6</b>	<b>1,319.1</b>	<b>1,420.5</b>
EMEA (ex DACH)	142.0	141.2	117.6	126.0	132.3
DACH	99.3	109.3	105.8	116.4	122.2
USA	66.6	76.7	77.2	85.5	91.7
APAC	13.2	10.8	7.9	8.5	8.9
<b>Group Net Fees</b>	<b>321.1</b>	<b>338.0</b>	<b>308.6</b>	<b>336.4</b>	<b>355.1</b>
Op. Exp.	(261.0)	(275.2)	(257.8)	(266.9)	(282.3)
<b>EBITDA</b>	<b>60.1</b>	<b>62.8</b>	<b>50.7</b>	<b>69.5</b>	<b>72.8</b>
Depr & Amort	(6.1)	(6.0)	(6.4)	(6.6)	(6.6)
Lease Depreciation	-	-	(13.0)	(12.0)	(11.0)
<b>EBITA - Adjusted</b>	<b>53.9</b>	<b>60.0</b>	<b>31.3</b>	<b>50.9</b>	<b>55.2</b>
Associates & JV's	0.1	-	-	-	-
Net Bank Interest	(0.7)	(1.0)	(1.2)	(0.8)	(0.8)
<b>PBT - Adjusted</b>	<b>53.3</b>	<b>59.1</b>	<b>30.1</b>	<b>50.1</b>	<b>54.4</b>
Non Operating Items	(6.4)	(2.3)	(1.3)	-	-
Other Financial Items	-	-	-	-	-
<b>PBT - IFRS</b>	<b>46.9</b>	<b>56.8</b>	<b>28.8</b>	<b>50.1</b>	<b>54.4</b>
Tax - Adjusted	(13.9)	(15.9)	(11.7)	(17.5)	(19.0)
Tax rate - Adjusted	26.0%	26.9%	39.0%	35.0%	35.0%
Minority interests	-	-	-	-	-
No. shares m, diluted	133.1	133.6	136.4	136.4	136.4
<b>Adj EPS (p), diluted</b>	<b>29.6</b>	<b>32.3</b>	<b>13.5</b>	<b>23.9</b>	<b>25.9</b>
Total DPS (p)	14.5	5.1	5.0	8.8	9.6

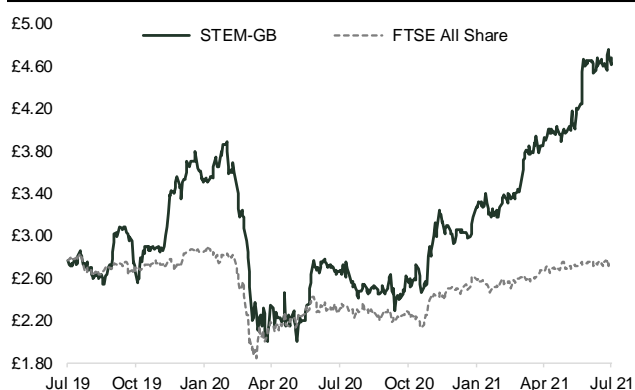
## CASH FLOW

Year to 31 November, £m	2018	2019	2020	2021E	2022E
EBITDA	60.1	62.8	50.7	69.5	72.8
Working Capital	(25.3)	(13.3)	25.3	(20.7)	(14.8)
Provisions / Exceptionals	(4.7)	3.6	0.8	(0.8)	(0.8)
<b>Gross Op Cashflow</b>	<b>30.1</b>	<b>53.2</b>	<b>76.9</b>	<b>48.0</b>	<b>57.2</b>
Cash Tax	(14.4)	(13.0)	(10.5)	(11.7)	(17.5)
Cash Interest	(0.5)	0.0	0.1	(0.8)	(0.8)
<b>Net Op Cashflow</b>	<b>15.2</b>	<b>40.2</b>	<b>66.5</b>	<b>35.5</b>	<b>38.8</b>
Capex	(5.2)	(4.6)	(5.3)	(5.3)	(5.3)
<b>Free Cashflow</b>	<b>10.0</b>	<b>35.7</b>	<b>61.2</b>	<b>30.2</b>	<b>33.6</b>
Dividends	(18.0)	(18.8)	(6.7)	(6.8)	(12.1)
Acquisitions & Inv.	-	-	-	-	-
Other Non Operating	(0.2)	0.4	(13.3)	(13.3)	(13.3)
<b>Net Cashflow</b>	<b>(8.2)</b>	<b>17.3</b>	<b>41.3</b>	<b>10.1</b>	<b>8.2</b>
<b>Net Cash (Debt)</b>	<b>(4.1)</b>	<b>10.6</b>	<b>49.9</b>	<b>58.0</b>	<b>64.2</b>

## BALANCE SHEET

Year to 31 November, £m	2018	2019	2020	2021E	2022E
Intangibles	9.6	8.0	4.4	4.4	4.4
P,P+E	6.9	6.8	40.8	42.1	43.5
Tax Asset & Other	4.7	4.2	1.5	1.5	1.5
<b>Total Fixed Assets</b>	<b>21.3</b>	<b>19.0</b>	<b>46.7</b>	<b>48.0</b>	<b>49.4</b>
Current Assets	288.4	271.0	237.4	272.1	294.4
Current Liabilities	(202.3)	(182.3)	(179.5)	(193.5)	(201.0)
<b>Net Current Assets</b>	<b>86.1</b>	<b>88.6</b>	<b>57.9</b>	<b>78.6</b>	<b>93.4</b>
Long Term Liabilities	(1.6)	(1.4)	(26.0)	(26.0)	(26.0)
Net Cash (Debt)	(4.1)	10.6	49.9	58.0	64.2
<b>Net Assets</b>	<b>101.6</b>	<b>116.9</b>	<b>128.5</b>	<b>158.6</b>	<b>180.9</b>

## PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

## SHAREHOLDERS

	% of ord. Share capital
JO Hambro Cap Mgmt	8.0%
Kempen Cap Mgmt	6.6%
Fidelity	5.8%
SThree Founders	5.1%
Allianz Global	4.8%
Harris Associates	4.6%
Polar Capital	4.1%
<b>Total</b>	<b>39.0%</b>

## Announcements

Date	Event
19 July 2021	H1 FY21 results
03 June 2021	Trading update
15 March 2021	Q1 trading update
14 December 2020	Q4 trading update
23 November 2020	Positive trading update
14 September 2020	Q3 trading update

## RATIOS

	2018	2019	2020	2021E	2022E
RoE	38.8%	36.9%	14.3%	20.5%	19.5%
RoCE	51.1%	56.5%	39.8%	50.6%	47.3%
Asset Turnover (x)	0.1x	0.1x	0.2x	0.1x	0.1x
NWC % Revenue	6.8%	6.7%	4.8%	6.0%	6.6%
Op Cash % EBITA	55.8%	88.5%	245.7%	94.3%	103.6%
Net Debt / EBITDA	-0.1x	0.2x	1.0x	0.8x	0.9x

## VALUATION

Fiscal	2018	2019	2020	2021E	2022E
P/E	15.8x	14.5x	34.8x	19.6x	18.1x
EV/EBITDA	9.6x	9.1x	11.3x	8.3x	7.9x
Div Yield	3.1%	1.1%	1.1%	1.9%	2.0%
FCF Yield	1.7%	6.2%	10.7%	5.3%	5.8%

Net Fees growth		5.3%	-8.7%	9.0%	5.6%
EPS growth		9.0%	-58.3%	77.2%	8.5%
DPS growth		-64.8%	-2.0%	76.9%	8.5%

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