SThree PLC

STHR | Small Cap | Support Services |276p |£363m

Initiation of coverage – Wheels still on

1 Year Chart

*A cursory glance at the share price chart and the peer group valuation discount might suggest the wheels have come off the **SThree** story. The reality is much more interesting. Instead we find a specialist STEM business; with leading positions in specialist markets (mostly overseas with better growth prospects than the UK); focused on growing a Contract business displaying highly attractive and resilient economics. Investors concentrating on superficial comparisons with very different UK peers will undoubtedly find their higher ratings more comforting. SThree requires more thought. Before recent price falls, SThree had been performing well off the back of positive trading commentary, H1 results and earnings upgrades. In our mind, not much has changed. SThree is well positioned to outperform its more generalist peers due to late cycle positioning and resilient characteristics. Near term growth prospects are good and the dividend is at an inflection point. All to be had at a PE of 9.9x, a near 30% PE discount to its peers and a 5.1% yield.*

- **No laggard:** We query the extent of the peer valuation discount. SThree's track record and future growth expectations have, at worst, kept pace with peers. Negatives surrounding dividend growth and lower net cash levels bear further scrutiny. The inflection point on the former is approaching and the latter is a function of growth in Contract and the one-off impact of the Glasgow relocation.

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

- **Geographic & STEM focus:** For those investors looking for non-UK exposure; SThree's European strength and US growth should be attractive. STEM specialisation is also critical; exposing SThree to highly specialist employment markets with demand characteristics insulated from more general cyclical swings.

- **Contract Value.** Put simply, SThree sees more attractive economics in the Contract business than the Perm equivalent. The key here is a combination of higher Life Time value and the relevance of Contract to SThree's target STEM markets. Management focus is on further growth investment behind Contract and optimising the performance of Permanent.

21st November 2018

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- **Valuation:** The Q3 update re-iterated a good trading backdrop and confidence in the outlook. Whilst macro sentiment has clearly taken a knock; the extent to which this is already captured in the price is the key question. With recent earnings upgrades still fresh in the mind, the near 30% PE discount looks difficult to justify.

YE – November	NFI, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	PER x	Yield %
FY 2016A	258.7	37.7	21.1	14.0	10.0	13.1	5.1%
FY 2017A	287.7	44.5	24.7	14.0	5.6	11.2	5.1%
FY 2018E	*317.0*	*50.2*	*27.8*	*14.1*	*-15.1*	*9.9*	*5.1%*
FY 2019E	*347.0*	*56.4*	*31.2*	*14.5*	*-5.2*	*8.8*	*5.3%*
FY 2020E	*367.0*	*61.8*	*34.1*	*15.0*	*11.5*	*8.1*	*5.4%*

Source: Radnor Capital Partners

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Key Points – Investment Case

Autumn Blues

Professional Staffing stocks in the UK have recently come under downside pressure as the market has moved to discount a weaker international and domestic outlook. SThree has been caught up in this general swing, posting a recent low of 274p, down 29% from a 52 week high of 385p. SThree has been keeping good company with the other Professional Staffers suffering equivalent peak to trough swings, despite the resilience of the SThree model.

Positive Updates

With a FY trading update upcoming (period end Nov), we expect investors will be looking for reassurance on a seasonally important H2, together with guidance for FY19. The last SThree trading update (14th September) was **positive** and resulted in c.4% EPS **upgrades** from the house brokers (UBS & Liberum) and 2% EPS upgrades from the independent sell-side coverage.

Non-UK Exposure

81% of FY18 gross profit was 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**, **Benelux**, **Japan** and **North America**.

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 Professional Staffing peer group through its weighting towards Contract (71% of FY17 gross profit) relative to Permanent (29% of FY17 gross profit). This is partly driven by Contract being the most relevant model for STEM industries. However, Contract offers 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.

Investor Focus

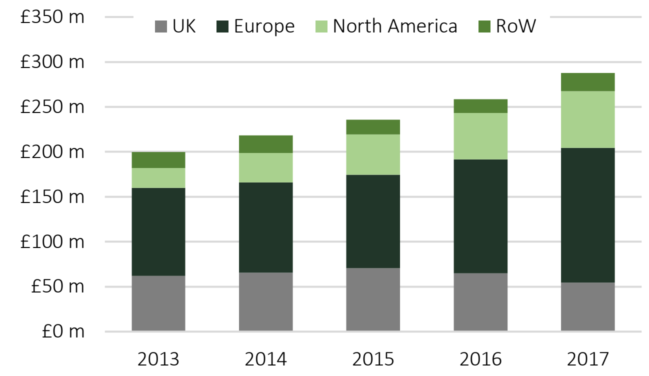
We believe investors have focused disproportionately on the performance of SThree's Permanent business in the UK, which is not the key value driver. The fundamental differences in business mix and strategic focus between SThree and its immediate peers, in our view, have not been fully recognised. SThree is also paying the price for defending its dividend since 2012, when other peers cut theirs and have subsequently grown faster from a reduced base. SThree has also garnered an undeserved reputation for lagging the peer group when it comes to upwards EPS revisions. The reality is somewhat different, with SThree house broker estimate revisions more closely matching upgrades elsewhere in the peer group.

Valuation

Over the last two years, SThree has traded within a 10% - 30% PE discount range to the immediate peer group. This range had narrowed through much of Q2 and Q3 2018 although has widened back out to 24% in recent weeks. We believe SThree is less exposed to the headline cyclical risks to be found elsewhere and the current headline prospective PE of 9.9x and yield of 5.1% does not fully recognise SThree's growth and risk characteristics.

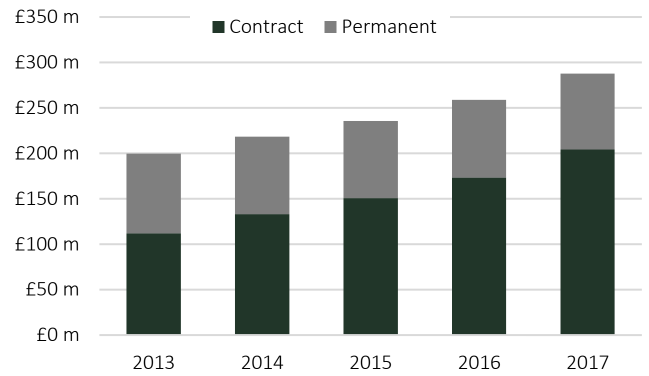
SThree - Key charts

Geographic Gross Profit 5 year track record



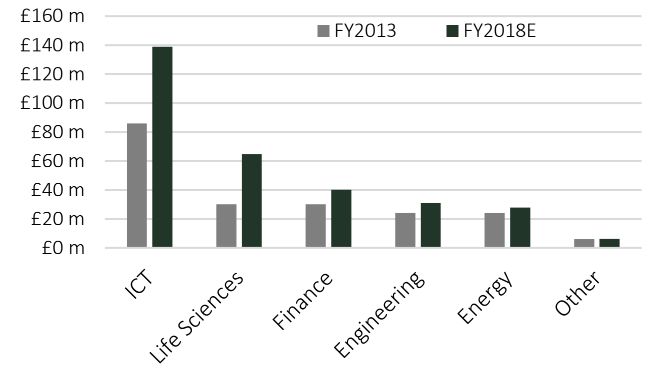
Source: FactSet, Radnor

Contract / Perm gross profit 5 year track record



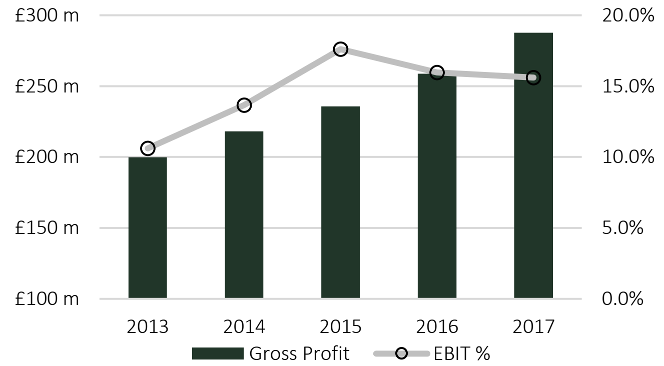
Source: FactSet, Radnor

STEM market gross profit 2013 vs 2018



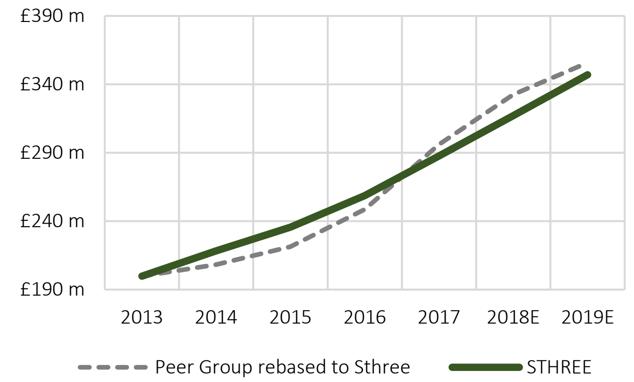
Source: FactSet, Radnor

Gross Profit and EBIT margins 5 year track record



Source: FactSet, Radnor

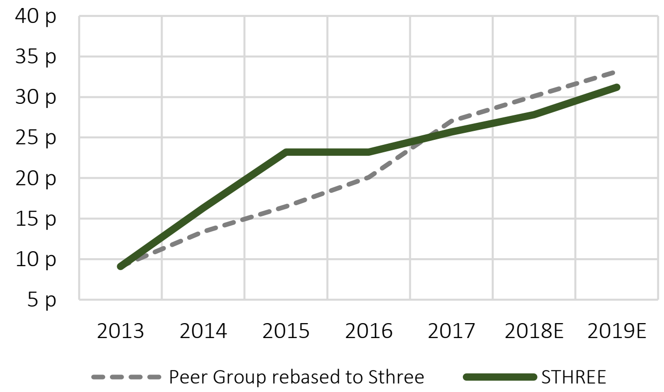
Gross Profit – SThree vs Peers



Peers = Hays, PageGroup, Robert Walters

Source: FactSet, Radnor

EPS – SThree vs Peers



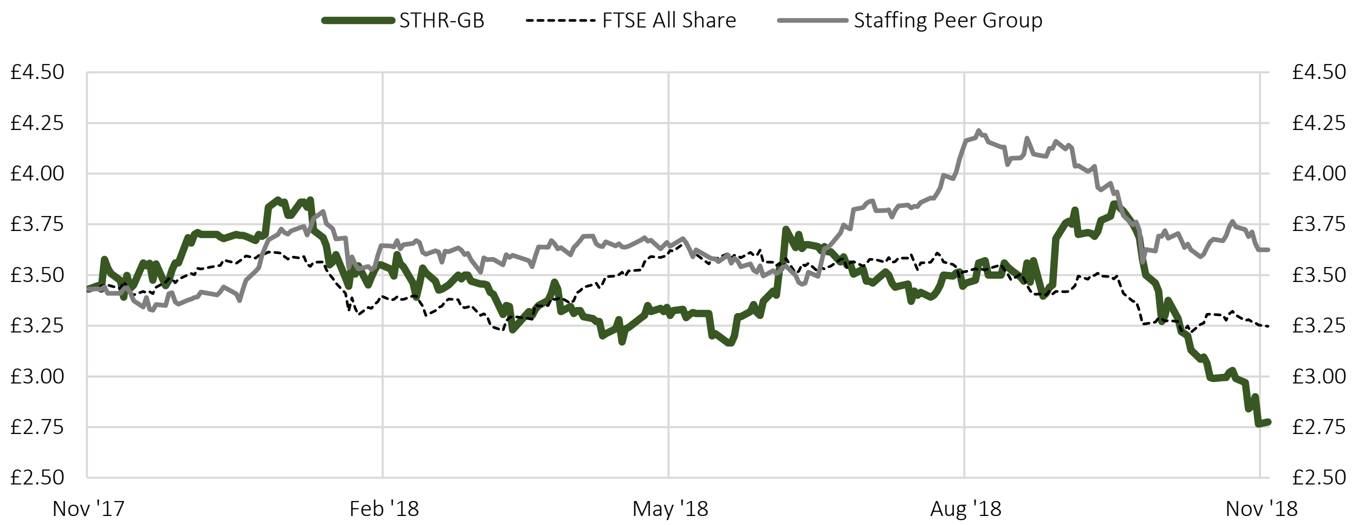
Peers = Hays, PageGroup, Robert Walters

Source: FactSet, Radnor

Share Price & Valuation

SThree's 52 week share price range is 274p to 385p. In Figure 1 below, we show the SThree share price performance over the last year compared to the FTSE All Share and the immediate peer group (Hays, PageGroup and Robert Walters).

Figure 1: SThree 1 year price performance vs FTSE All Share and Staffing Peer Group (both rebased)



Source: FactSet, Radnor

October saw significant price volatility across the market with the Staffing peer group coming under particular pressure. All the immediate Staffing peers published quarterly trading updates during this period to a mixed response. Both Hays and Robert Walters were seen by many to have disappointed.

The key recent dates for the SThree share price were 3rd October, which marked the 52-week high of 385p and 16th November, which marks the 52-week low of 274p. From this peak to trough, SThree has fallen 29%, however:

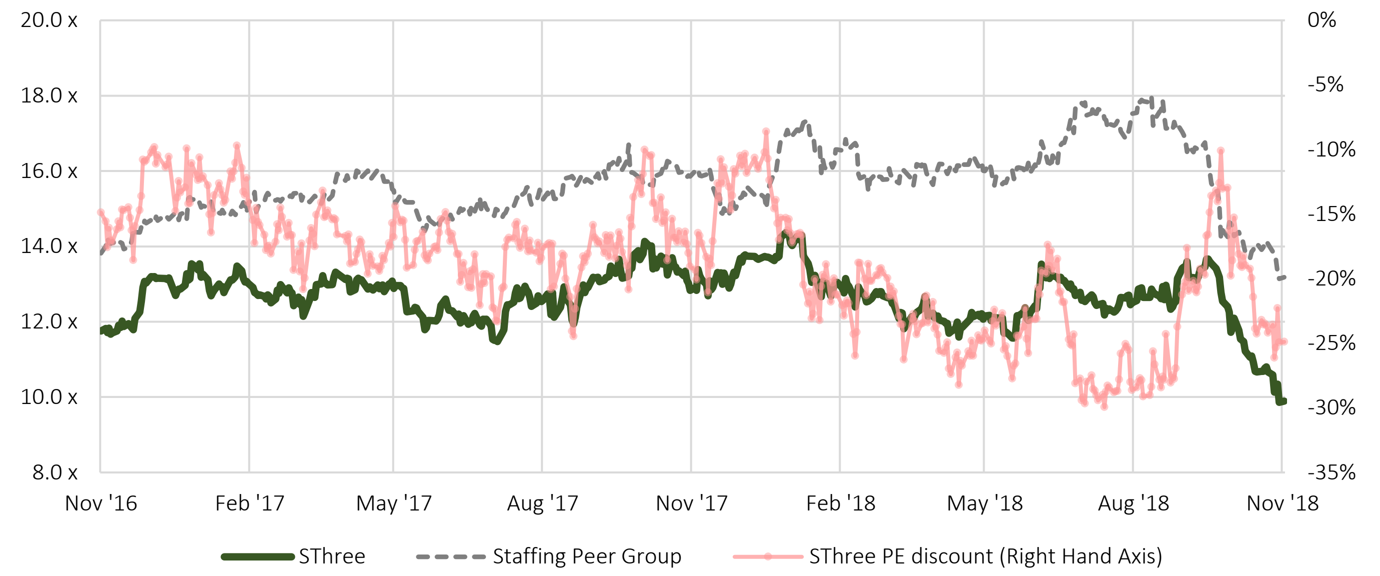
- Both Hays and Robert Walters fell **27%** from their respective recent peaks to recent lows;
- PageGroup fell **19%** on a similar basis;
- Cut another way, SThree now stands some **18%** below the pre-rally price of 339p (10th September);

Despite the headline volatility, we can see that SThree has not been alone in experiencing a taxing period for Staffing share prices. Given the defensive and late cycle characteristics of the SThree business model and market position we believe SThree is well positioned to outperform.

All the Staffers fell further than the broader indices, which is itself indicative of broader investor perceptions of broader cyclical exposure. Recent peak to recent trough, the FTSE Support Services index is down **14%** and the FTSE All Share down **11%**.

How has this share price volatility mapped through to relative valuation? In Figure 2 below, we show the evolution of SThree's FY1 PE multiple relative to the immediate Staffing peer group. This is based on headline market consensus data sourced from FactSet.

Figure 2: SThree 1 year prospective PE multiple vs Staffing peer group



Source: FactSet, Radnor

Based on market consensus numbers, we can see that over the last two years, SThree has traded at a persistent 10% - 30% PE discount to the peer group. From August onwards, this discount narrowed sharply to c.10%. However, the broader market sell-off has felt indiscriminate (despite c.4% EPS upgrades for SThree post the well-received Q3 trading update in September). In fact, during this period, SThree has been the only Staffer to see any consistent EPS upgrades.

Given this disconnect between share price movements and the direction of underlying earnings revisions, the widening of the SThree PE discount to the peer group feels anomalous. Based on the principle of history repeating itself and disregarding any further views on the relative defensiveness of the SThree model, a discount of c.10%-15% would suggest a more rational market response. We highlight below, the key valuation metrics for SThree and the peer group.

Figure 3: Headline valuation metrics for the UK Staffing peer group

	EV/EBITDA FY+1	EV/EBITDA FY+2	P/E FY+1	P/E FY+2	Div Yield FY+1	Div Yield FY+2
Hays	7.4x	6.8x	13.5x	12.4x	5.7%	6.1%
Page	8.9x	7.9x	14.8x	12.8x	5.4%	6.0%
Robert Walters	7.4x	6.8x	12.3x	11.4x	2.6%	2.8%
Peer Group	**7.9x**	**7.2x**	**13.6x**	**12.2x**	**4.5%**	**5.0%**
SThree	**6.4x**	**5.8x**	**9.9x**	**8.8x**	**5.1%**	**5.2%**
Prem/Discount %	-20%	-21%	**-27%**	**-28%**	+12%	+6%

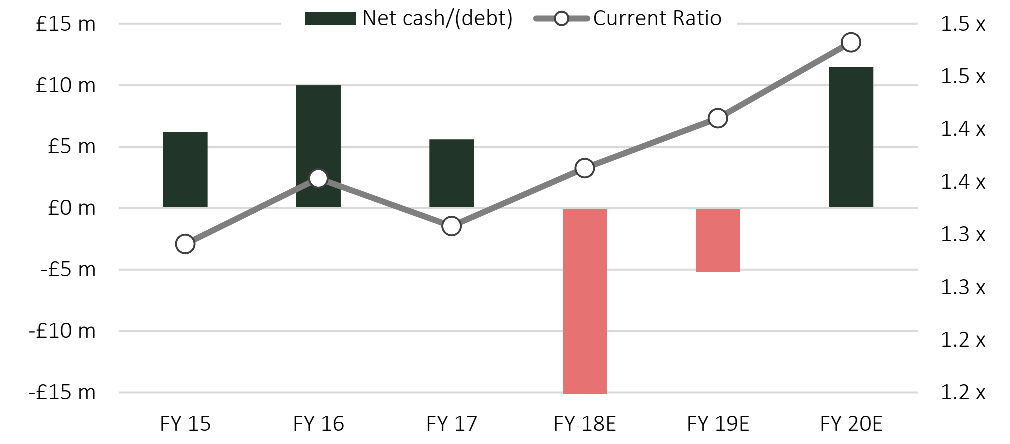
Source: Radnor, FactSet

It is worth highlighting here, that SThree, in common with the other UK listed Staffers, enjoys a strong balance sheet. For the FY17, net assets were £81m (of which only £11.4m were intangible assets) and the net cash position was £6.0m. SThree's emphasis on the Contract staffing model is more working capital intensive than the Permanent heavy models elsewhere in the peer group (ie, growth consumes cash) and the cash cost of the Glasgow relocation has hit primarily in the current financial year.

We are looking for a £15.1m net debt position for FY18E (working capital investment and Glasgow relocation costs) and then a return to net cash in FY20E and beyond. Although we see little intrinsic risk in the SThree balance sheet (the group runs a £50m revolving credit facility, plus a £20m accordion and £10m over), which enjoys good flexibility, the more visible net cash positions elsewhere are likely to account for a degree of the PE discount.

In Figure 4 below, we show the evolution of the SThree net cash / debt profile and our estimates looking forward. We also show SThree's current ratio (short term assets / short term liabilities) to give a picture of overall balance sheet liquidity.

Figure 4: Evolution of SThree net cash & Current Ratio



Source: SThree, Radnor

SThree vs Peer Group – Negative Perception vs Reality

1. **Headline cyclical risk** – To be fair to investors; the defensive Contract vs cyclical Perm argument has yet to be resolved publicly. In 2009, SThree's contract exposure was materially lower than it is now. However, 2009 did see overall contract runners decline at a significantly lower rate than permanent placements. Post the oil price shock in 2015, contract gross profit in Energy declined by 4%, compared to 44% permanent gross profit. These are anecdotal but do point to a real-world experience.

2. **Flat vs Growing dividend** – SThree has held its dividend at 14p since FY2012 and had lagged its peers (who have grown theirs) over the last three years. Here SThree is now paying the price for holding the divided in 2012. By contrast, Hays cut their pay-out by c.50%. The resilience of the Contract book was a material factor in the decision to hold the dividend. To investors who have bought into the peer group since 2012, this distinction might be somewhat academic, but it is relevant context;

3. **UK & Permanent performance** – Here the argument is mixed. SThree's UK business has indeed been through challenges and, if viewed on a standalone basis, has not kept up with UK peers. On the flip side, SThree growth investment has been focused away from UK and Permanent. Our view is that SThree should be viewed as an overseas Contract play first and a UK and Permanent play second.

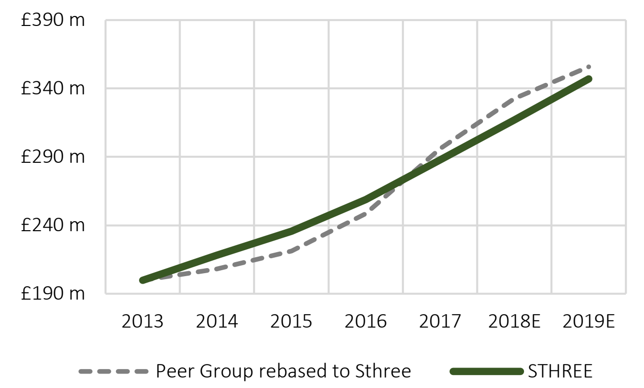
4. **Balance sheet** – We discuss Contract vs Permanent model later in this note but at a headline level; SThree does not offer the same net cash profile as their peers. This is a direct function of SThree's Contract focus, where cash is generated over time rather than on a spot basis in the Permanent model. The flip side is that SThree enjoys a greater level

of visibility and counter cyclical protection than Perm heavy peers and, arguably, a higher quality of earnings. SThree continue to make the case that they see materially higher Life Time values for Contract placements than their Permanent equivalents.

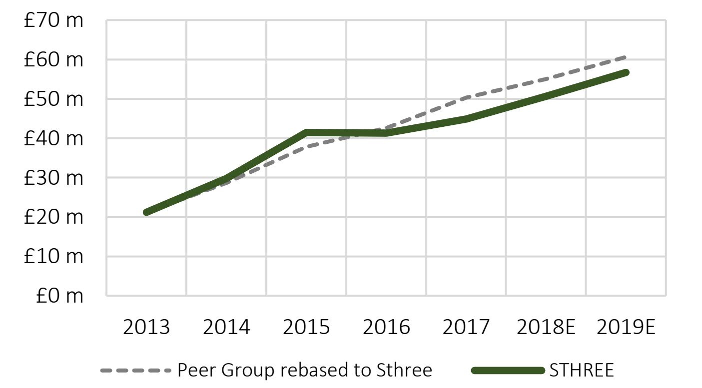
5. **Earnings upgrades** – Again superficially correct. However, earnings revision momentum is important for a peer group that is generally perceived to be cyclical. On paper, SThree consensus estimate momentum has indeed lagged the peer group. However, SThree has seen a very wide range of analyst estimates over the last two years. Depending on which estimates are viewed; SThree appears as either pedestrian (independent sell-side) or a strongly positive upgrade story (house brokers).

Figure 5: SThree vs Staffing Peers (peers rebased to SThree) – track record and estimates

Net Fee Income growth

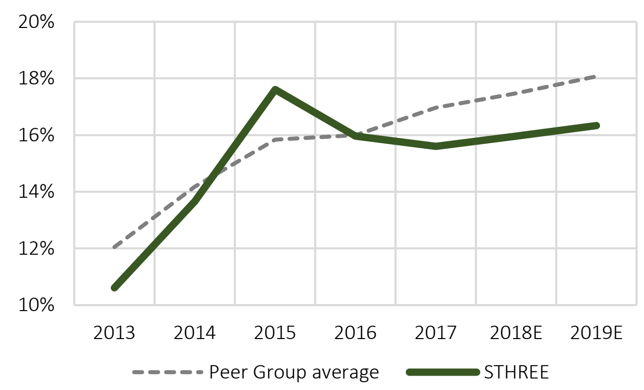


EBIT growth

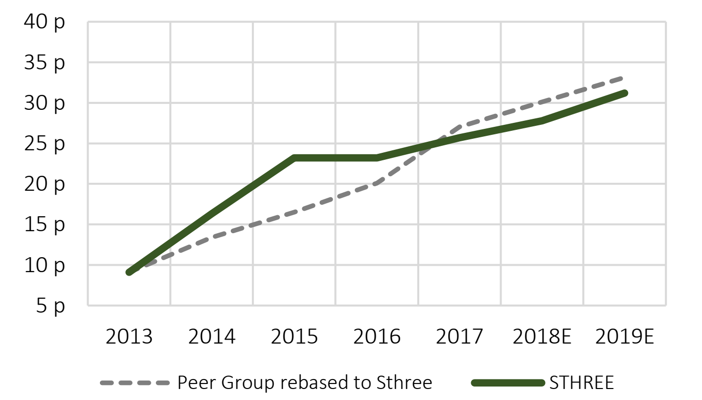


Source: FactSet, Radnor

EBIT margins



EPS growth



Source: FactSet, Radnor

In Figure 5 above, the charts show that SThree has tracked the Staffing peers far more closely than the current extent of the valuation discount would suggest. For the purposes of these charts we have rebased the simple average of the immediate peers (Hays, PageGroup and Robert Walters) to the actual SThree line item. We have not market cap weighted the peer group for the purposes of this exercise.

In Figure 6 below, we show how dividend cover has evolved for SThree compared to the peer group average since 2007.

Figure 6: SThree dividend cover and growth vs Staffing peer group average

Dividend cover (including special divs) | **Dividend progression (peer group rebased to SThree)**

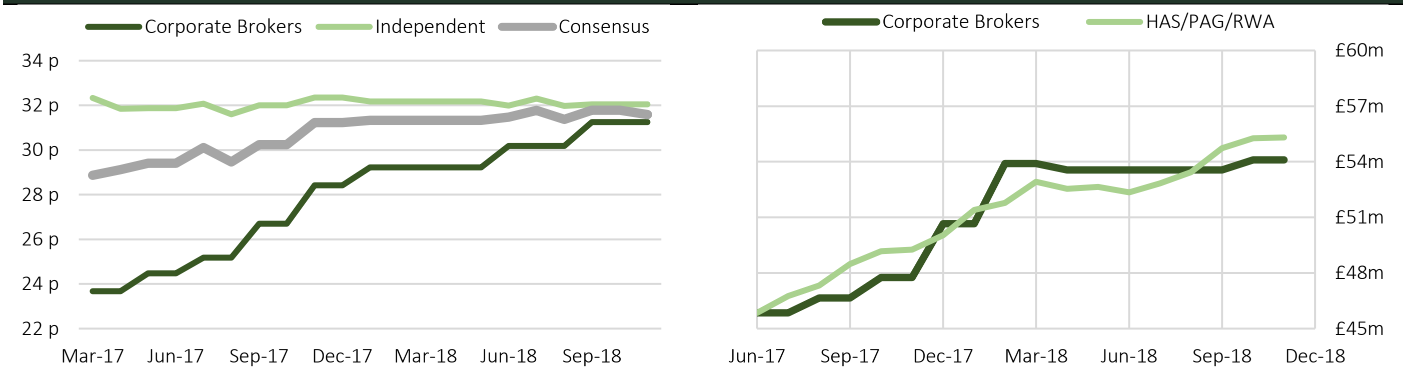
Source: FactSet, Radnor

The above chart shows how SThree has been steadily rebuilding its dividend cover since 2012, whilst the peer group has seen cover ratios decline recently as Hays & Page have been paying special dividends. Allied to the fact Hays halved its dividend in 2012, this re-inforces our underlying view that the perm heavy peers have been prime mid-cycle beneficiaries. It is also only relatively recently the Peer group has overtaken SThree in terms of equivalent total payout.

Below, in Figure 7 we show the variance between the Corporate Broker consensus for SThree FY19E EPS estimate and the Independent Sell Side consensus. We can immediately see that a material variation has existed between the two for much of the last 18 months and the two different lines paint a very different picture for SThree.

Figure 7: SThree consensus estimate analysis

Breakdown of SThree FY19E EPS estimate | **SThree FY19E PBT estimate vs Peer Group**



Source: FactSet, Radnor

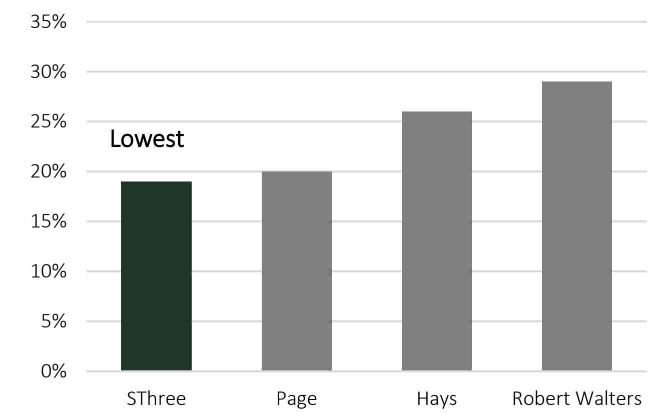
Perhaps more interestingly, the right-hand chart shows consensus estimates changes for the peer group rebased to the changes made by the SThree corporate brokers. Here we focus on the evolution of the SThree FY19E adjusted PBT estimate. These charts also show that SThree, according the house brokers, has demonstrated similar levels of upgrade momentum as the peer group, which is consistent with the tone of news-flow across the peer group (including SThree).

What makes SThree different from other recruiters?

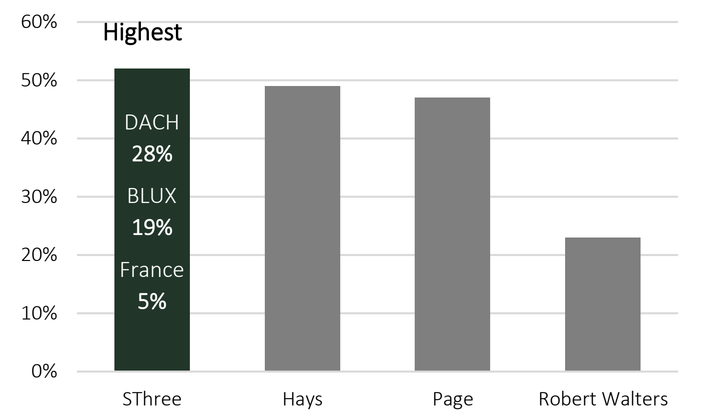
Geographical Diversification

SThree is not alone amongst the peer group in enjoying a healthy degree of geographical diversification. However, SThree has the greatest relative exposure to non-UK markets. In Figure below, we show the key comparative geographic exposures in the peer group.

Figure 8: UK gross profit exposure

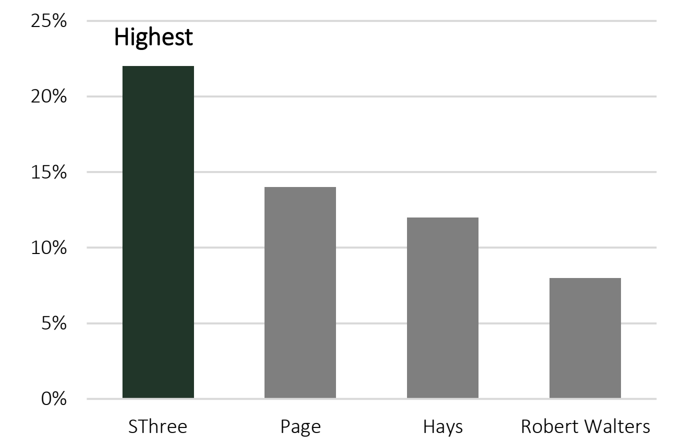


European gross profit exposure



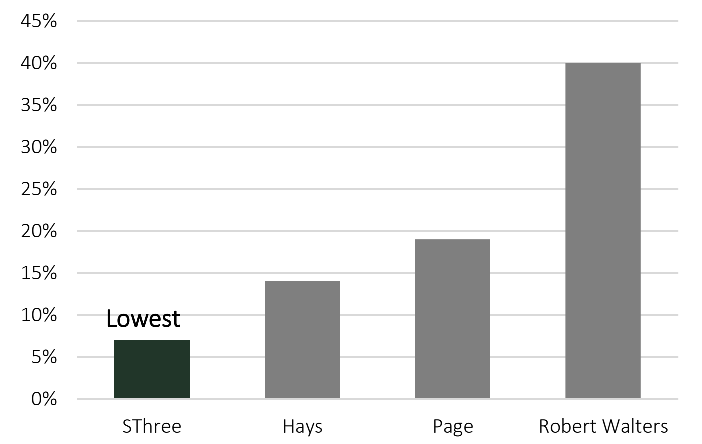
Source: Company announcements

North American gross profit exposure



Hays exposure is estimated as specific split is not given

Rest of the World gross profit exposure



Hays exposure is estimated as specific split is not given

Source: Company announcements

We have highlighted the degree of SThree's exposure to three key European markets of DACH (Germany, Austria and Switzerland), Benelux (Belgium, Netherlands, Luxembourg) and France.

For those investors seeking to reduce UK exposure in favour of Continental Europe and North America then SThree offers the most attractive geographic balance. SThree's exposure to the Rest of the World is concentrated in Asia Pacific, most notably Japan. Here SThree's exposure is lower than elsewhere in the peer group, although Rest of the World figures for the others do include Australia, New Zealand and South America.

STEM

SThree is a 'pure-play' STEM recruiter, whilst at the same time maintaining multiple agency brands. Breaking down STEM by industry for disclosure purposes means Information & Communications Technology, Banking & Finance, Engineering, Energy and Life Sciences.

SThree has made its intentions clear; to be the leading STEM talent provider in the leading STEM markets. Why is this? Why are STEM markets so attractive from a recruitment perspective? What are the key implications for the SThree equity story?

STEM stands for Science, Technology, Engineering, and Mathematics. We identify the following key attributes of the STEM recruitment market:

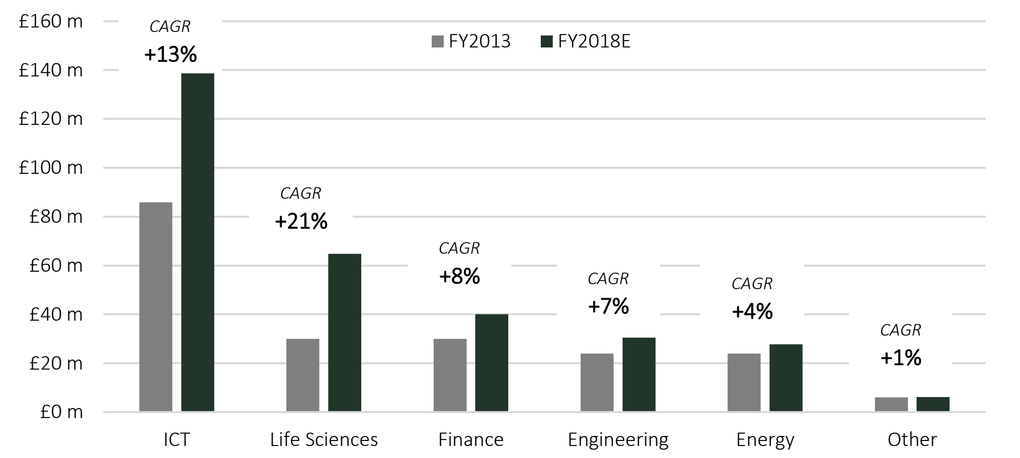
Supply / demand dynamics	Highly skilled candidates are difficult to identify, increasing the value of candidate databases and creating natural barriers to entry for the incumbent recruiter.
Growth	STEM markets have, and continue to display above average growth rates
Scarcity	In many markets, not least the UK, there is a shortage of specialist skills in technical areas
Value	Higher average earnings. For example, we estimate the average SThree contractor earns more than £90k per annum. Higher average earnings feed directly into ongoing placement fees, especially in the contract market where day rates can become squeezed.
Demographics	Workforces in most advanced economies are ageing; with a lower proportion of the workforce represented by graduates with STEM skills. Also fewer graduates are choosing careers in STEM disciplines, further increasing candidate scarcity.
Regulation	Government and industry regulations require increasingly compliant and risk aware organisations; this is particularly relevant in Banking & Finance and increasingly for ICT. Compliance and risk management projects lend themselves to contract recruitment.
Churn	Above average churn as candidates move to update skills and projects require different technical skill mixes as they evolve. High churn rates lend themselves to contract recruitment.
Future Proofing	Technology poses disruption risk across a range of established industries with incumbents forced to respond by bringing new skills into their organisations.
Contract Bias	Contract recruitment offers a fluid, rapid and inherently scalable solution to shorter term staffing needs. This model ideally suits today's increasingly asset light but skills heavy advanced economies.
Profitability	Contract recruitment margins are relatively high compared to other recruitment models. This reflects the natural barriers to entry that established contract specialists enjoy. We estimate SThree's contract margin to be c.20%.

SThree's exposure to the core STEM verticals has remained consistent over the last five years with ICT and Banking & Finance representing 58% of group gross profit in FY2013 and 59% of group gross profit in FY2017. In terms of gross profit mix, the largest changes have been in:

- **Life Sciences -** grown from 15% of gross profit in FY2013 to 21% of gross profit in FY2017
- **Engineering –** declined from 12% of gross profit in FY2013 to 9% of gross profit in FY2017

In Figure 9 below we show the change in absolute gross profit contribution between FY2013 and FY2018 (based on HY2018 gross profit splits mapped to FY2018E gross profit). We also show the 5 year gross profit CAGR for each vertical.

Figure 9: Gross profit growth by STEM vertical, FY2017 to FY2018E



Source: SThree, Radnor

Not only has SThree delivered consistent group gross profit growth over the last five years (CAGR +11%), but this has been broadly spread across the group, with all the key verticals contributing.

Energy and Engineering have been the weakest verticals overall, unsurprising given the weak oil price backdrop, yet have still delivered healthy mid-single digit growth. Exposure here is both to established and new (renewable) energy markets. Management have flagged the Energy market as a focus area for new investment as the oil price recovery is likely to feed into increased demand alongside the structural growth opportunity in renewable energy.

There is understandable headline nervousness surrounding the Banking & Finance outlook given recent market headwinds and Brexit related uncertainty. We would highlight:

- Contract bias within Banking & Finance is likely to prove more resilient than Permanent if we enter a prolonged period of retrenchment.
- Brexit itself could be a net positive to SThree if this results in any significant shift in headcount investment towards Continental European financial centres. It is worth noting in this context that in FY2017, the UK represented 18% of the Banking vertical compared to 33% for Continental Europe.
- Perhaps surprisingly, both day rates and total contractor Life Time Value are higher for Banking contractors in Continental Europe than the UK, reflecting the thinner candidate pools in those markets.

CONTRACT

In our view, the key attributes of the Contract business are:

Value	Contractors deliver a higher Life Time value to SThree than a Permanent equivalent. We explore this key attribute in more detail below.
Barriers to Entry	Contract requires working capital investment posing a significant economic barrier to entry to smaller, balance sheet light entrants. This hurdle is lower in Permanent. Contract is also technology, platform and client process dependent making it more difficult for new entrants.
Managed Service Providers	c.30% of global recruitment spend is controlled by Managed Service Providers (eg: Randstad, Agile 1 and Kelly OCG) and a complete Contractor solution is a key requirement to partner with these important global players.
Productivity	Sales headcount productivity is higher in Contract vs Permanent, although the initial time investment to breakeven is also higher in Contract.
Cashflow duration	Contract clients are typically invoiced over a contract duration, usually on a monthly basis. In Permanent, cashflow is lumpy and spot based.
Reinforces STEM focus	Contract and STEM go hand in hand, with Contract the most relevant staffing model in many of the key target industries.
Early & Late Cycle gearing	Contract rates tend to rise more sharply during periods of skills shortages (ie, early stages of a cyclical recovery). History also suggests that Contract is more resilient in downturns as clients defer permanent recruitment in favour of more flexible Contract work.
Self-feeding intelligence	Established client / contractor relationships are more likely to generate future and recurring placement opportunities.
IR 35	Private sector adoption of IR35 has been put back to 2020. Although the primary impact was felt in the public sector in 2017 (SThree exposure was limited), the private sector impacts are difficult to assess. Some upward pressure on contractor rates to offset tax is likely.
ECM opportunity	Although SThree is a well-established Contract business, it is still only 20% exposed to new contract models such as ECM (Employed Contract Model), which offer future growth opportunities.

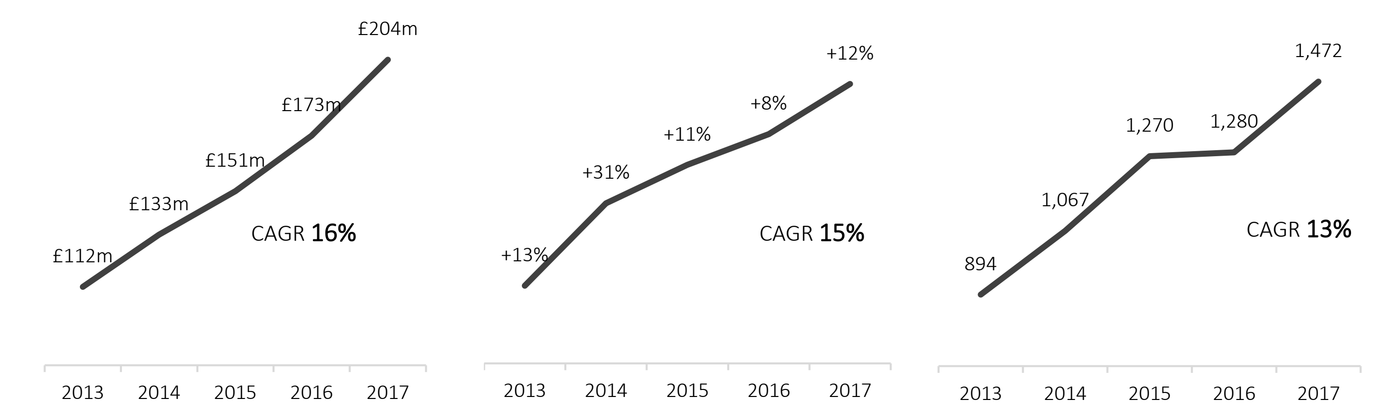
SThree's track record in delivering growth from the Contract business has been impressive; reflecting a combination of;

- good underlying STEM fundamentals;
- particular relevance of the Contract model for STEM markets
- SThree leadership position in key Continental European markets;
- focused headcount investment;

In Figure 10 below, we highlight SThree's Contract track record since FY2013.

Figure 10: SThree Contract track record, FY2013 – FY2017

Gross Profit | **Contract Runners** | **Sales Headcount**



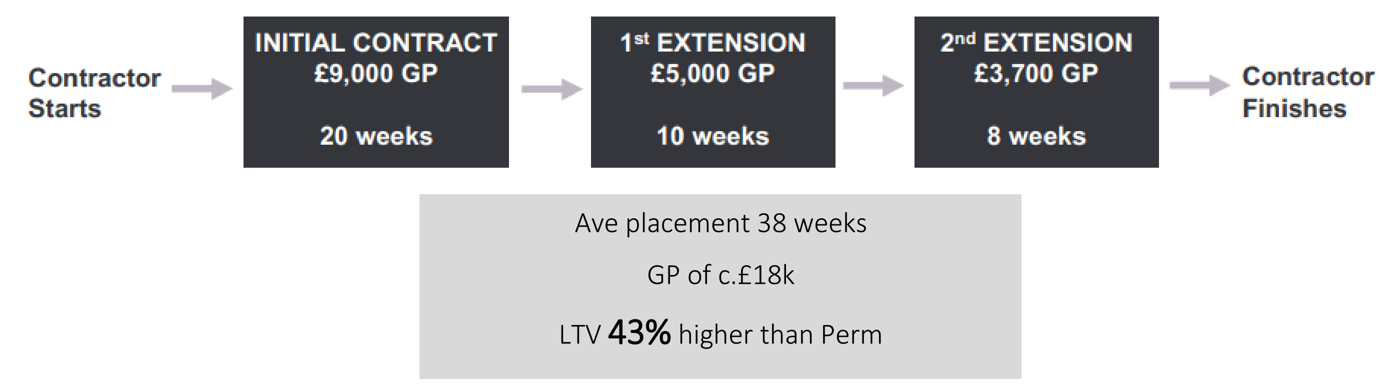
Source: SThree, Radnor

We believe SThree's Contract focus is a source of potential investor confusion. The relative weakness of the SThree Permanent business, especially in the UK, does not compare well to others in the UK peer group and this has prompted the rational question: "Is the SThree focus on Contract purely a function of it not doing as well on Permanent?"

We believe the answer is that the two are fundamentally disconnected. That there is a perfectly viable and attractive opportunity within Contract is without doubt in our mind. The STEM relevant attributes of the Contract model, coupled with the gross profit growth delivered by SThree from the Contract business suggest this an area capable of delivering good growth in the future and generating attractive returns.

Below, in Figure 11, we highlight the analysis provided by SThree at the September 2017 Capital Markets Day, where they made the economic case for the Contract model.

Figure 11: Contract Life Time Value



Source: SThree, Radnor

The key point here is the Life Time Value being 43% higher than the Permanent equivalent. The key hurdle for investors to overcome is that this higher value is "earned" over a longer time period than Permanent where placement fees are effectively spot based.

We would highlight the following;

- It is the extended fee earning duration in Contract that creates underlying cash-flow and earnings visibility unlike Perm where fees / cash are generated on a non-recurring spot basis

- Confidence in this cashflow strength was a material factor in SThree's decision to defend the dividend in 2012 when others in the peer group were cutting.

- Past experience suggests Contract volumes are more resilient to macro shocks than Perm (2009 saw contract runners decline at a materially slower rate than perm placements and the 2015 oil price shock saw Engineering contract gross profit fall by 4% vs 44% for perm gross profit).

- The reality is that shorter term, specific contracts offer clients a more flexible, lower cost alternative to permanent headcount investment. We believe Perm business are best positioned mid-cycle, while Contract businesses are early and later cycle plays.

- Critically, a successful Contract business will be able to leverage future revenue opportunities from its past success in a way that Permanent recruiters cannot. Put simply, contractors that come to the end of a placement will need to find a new project and therefore become source of valuable, ongoing fee opportunities in the future.

- In effect, the Contract mentality is about building a book of quality longer term business, which lends itself to building long term client relationships, which themselves strengthen already significant barriers to entry.

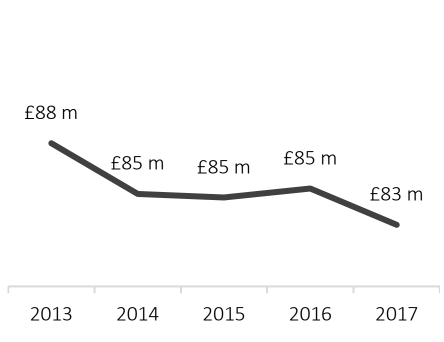
PERMANENT

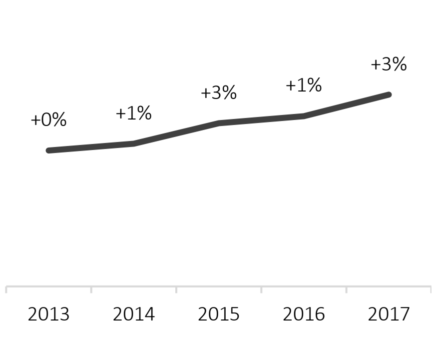
There is no doubt the Permanent business within SThree has not performed as strongly as the Contract business over the past five years and has held the overall SThree equity story back in the eyes of many investors.

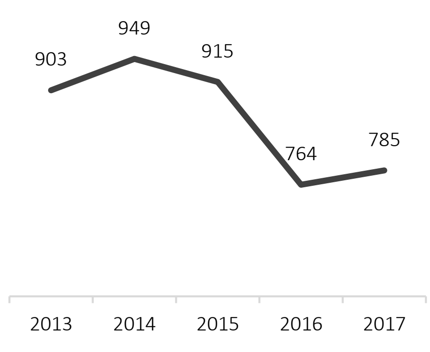
In Figure 12 below, we highlight the five-year Permanent track record for SThree.

Figure 12: SThree Permanent track record, FY2013 – FY2017

Gross Profit | **Average Perm Fee Growth** | **Perm Headcount**







Source: SThree, Radnor

We believe, SThree should be judged primarily on the strength of its Contract business as this is the model that best fits the group's target STEM markets and is where the majority of growth investment is targeted. However, the Permanent business still plays an important role within the group and it is difficult to envisage SThree maintaining its market positions and client relationships without offering both recruitment solutions.

SThree management have outlined very clearly a two-pronged future strategy for the Permanent business;

1. **Selective growth investment** – SThree do see Permanent growth opportunities in a number of key geographies; most notably Germany, USA and Japan. Germany is a good example where H1 2018 permanent gross profit grew 15% yoy, vs the 4% Permanent gross profit growth for the group as whole. In the markets where SThree's structural growth opportunity is more limited, the emphasis will shift towards;

2. **Optimisation** – Here the focus is on sales productivity, higher average placement fee growth and ultimately higher margins.

The focus on optimisation has already started to deliver visible results. The UK permanent business underwent a significant restructuring during Q1-Q3 this year, which has resulted in a material reduction in Perm headcount (down by c.30%) yet a small increase in placements. More broadly for the group as a whole; year to date Perm gross profit was up 5% whilst Q3 alone saw 8% growth yoy as the effects of the restructuring and the associated productivity improvements kicked in.

A key step in delivering an improving financial performance from the Permanent has been the recent complete separation of the management structures between Contract and Permanent, which will create greater accountability and management focus on the key targets.

A further attraction for strengthening and improving the Permanent business is the positive effect it brings to shorter term cash generation. This is a useful counterbalance the cash investment requirements of the Contract business.

INNOVATION

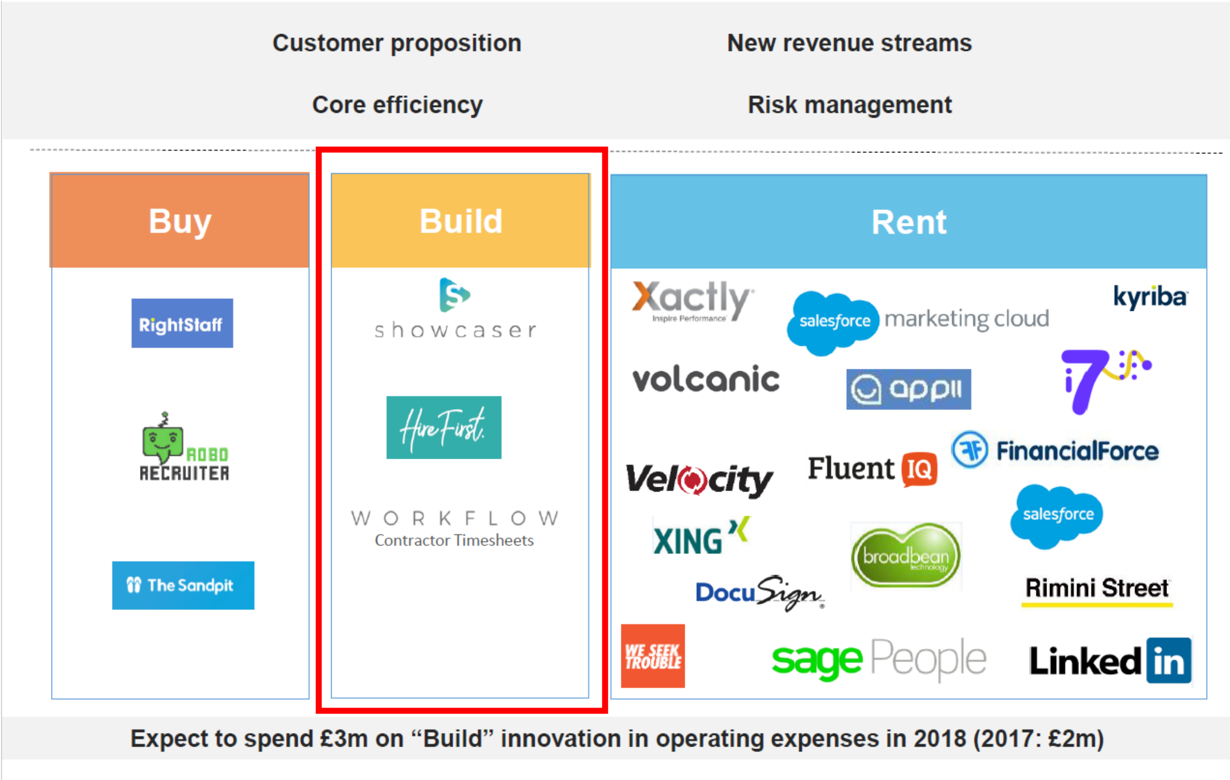
Beyond the core operating brands, SThree has adopted a portfolio approach to innovation internally, funding a number of R&D type initiatives at a FY2018 cost of c£3m to the P&L ('Build' in the graphic below). We expect this level of P&L investment will be ongoing.

It remains to be seen how value accretive this proves given the time horizon (we have not factored any specific contribution within our gross profit expectations), but in a dynamic marketplace like recruitment it is imperative to innovate strategically. We have seen this in a number of other industries, eg film; classified advertising; automotive.

Investments in external innovation start-ups are held on the balance sheet.

At the September 2017 Capital Markets Day and at the H1 2018 interim results, SThree have included the following slide:

Figure 13: SThree innovation strategy



Source: SThree, Radnor

Sitting within SThree PLC is SThree Ventures, which is the distinct entity through which SThree's innovation strategy is being executed. The idea here was to treat innovation in a similar fashion to the established technology incubator / accelerator model. There are two primary benefits:

1. Focus – Rather than delegate innovation to the individual business, SThree have focused their innovation activities into a separate vehicle with CEO leadership. The thinking here was to ensure that the broadest range of vision could be employed;

2. Distinct store of value – A clear risk of delegating innovation within existing business lines is that the outcomes could also become subsumed and effectively invisible to the

outside world. We believe SThree management are taking a much more proactive approach and the ability to clearly identify the progress made as well as leverage the outcomes is a key part of the strategy. Management have committed to allocating capital to this innovation strategy and investors should have sight of the value this ultimately creates for shareholders.

The staffing sector as a whole, is not well known for its cutting-edge technology application, yet there are many aspects of the recruitment process that do lend themselves to technological disruption (ie CV management; candidate data mining; online video interviews; selection process management). SThree's thinking in this regard is simple; how to lead the way?

In the current financial year, SThree have earmarked £3m of P&L investment across a range of innovation strategies. These range from third party investment; small scale acquisitions; internal R&D and signing up to best in class, third party solutions.

It is still early for management to give explicit guidance on the likely timings of future payback or value creation, but we expect the progress made by SThree Ventures to be highlighted by management at the full year results. As far as the internal SThree investment is concerned, we believe the innovation strategies are most likely to result in the following outcomes.

1. Optimising & Strengthening existing business lines – Here the SThree investment is a hybrid of offensive (opening new client opportunities) and defensive (future proofing and protecting existing businesses.) Recruiters like SThree cannot afford to stand still and in areas like Permanent recruiting, barriers to entry are low and adopting / innovating best practice can help to protect existing market positions. An interesting angle here is the opening-up of business areas that SThree would not have targeted historically because the economics of their consultant led model could not be made to work.

2. New revenue opportunities for existing businesses – Good examples here would be SThree Venture investments like HireFirst (artificial intelligence platform for candidate matching) and Showcaser (online video interactive CV platform). Both are nearing full commercialisation and represent innovative applications of technology to address established recruitment industry challenges.

3. New revenue opportunities outside of existing STEM focus – SThree is a specialist STEM business with a relatively narrow target industry focus. Yet, recruitment as a business model is industry agnostic. Where SThree Ventures identifies and creates new platforms and applications that have broader recruitment industry appeal; third party licensing and commercialisation partners will be actively sought (ie, legal or accounting recruitment).

The second and third potential outcomes outline above have the potential to be very material sources of future value creation, however we make no assumption within our estimates as to the amount of value created, nor the likely timing.

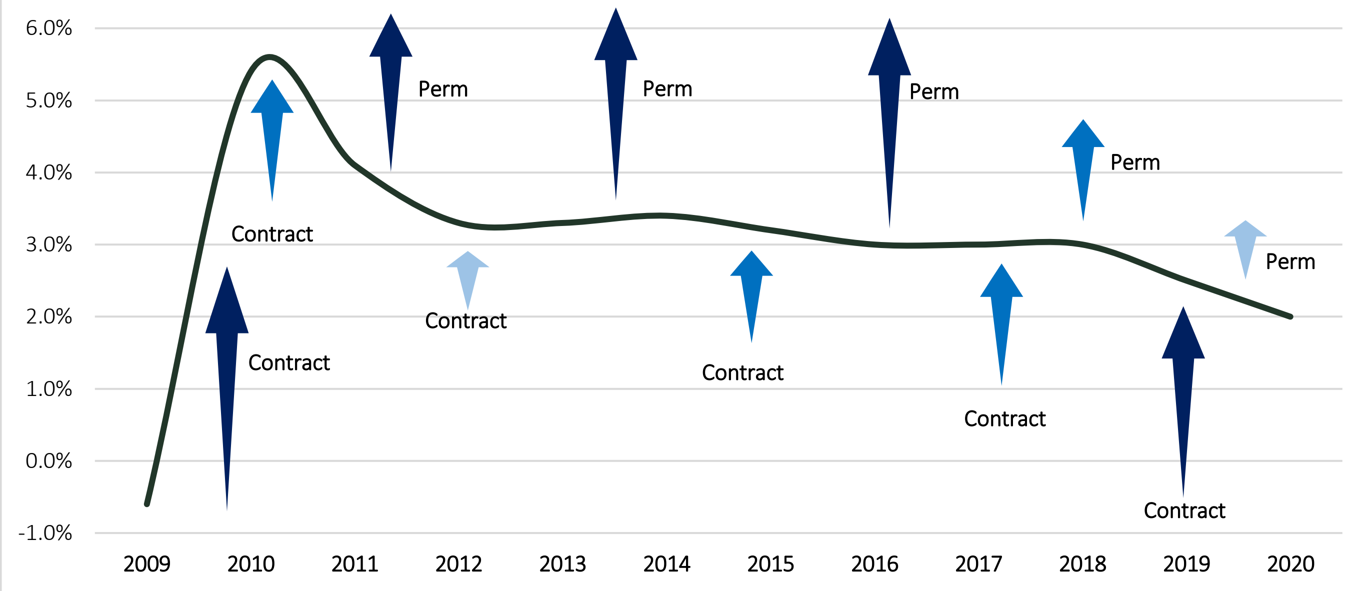
Staffing sector overview

Where are we in the cycle?

Demand for Staffing is of course cyclical. In times of economic prosperity organisations will expand and capitalise on underlying market strength, confidence and customer demand. The lead times on hiring shorten, to help deliver superior company growth.

When the market is not doing so well, businesses take longer when considering new hires, whether permanent or contract. The schematic below depicts how we would think at a high level about the relationship between GDP and the recruitment industry demand curve.

Figure 14: Global real GDP growth and Recruitment industry demand dynamics



Source: Radnor

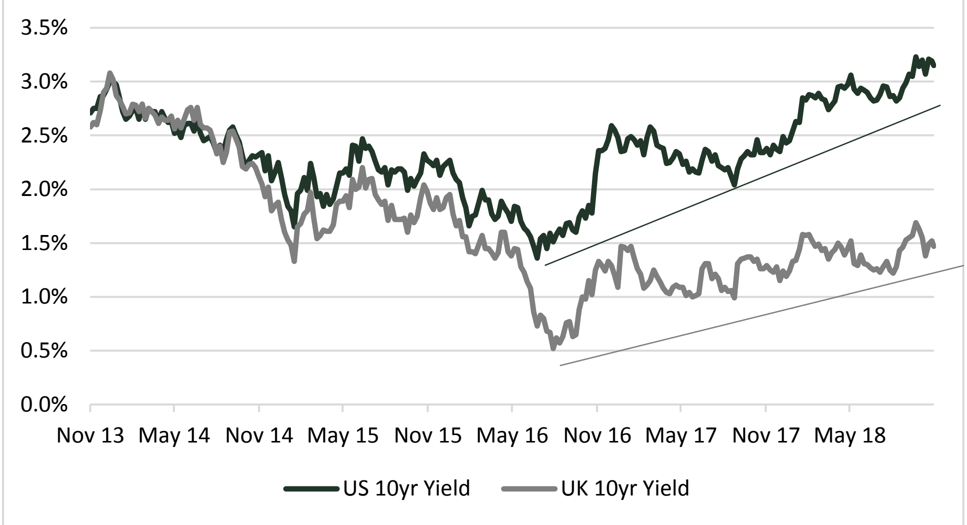
This chart shows our reading of the recruitment industry dynamic mapped against the global real GDP growth. Taller, darker arrows represent heightened demand for either Perm or Contract staffing and shorter, lighter arrows more muted demand. We see Contract as essentially playing the early and late cycle stages; whilst Perm tends to dominate during the middle of the cycle.

Since the GFC (Grand Financial Crisis), now 10 years ago, we have had a very elongated recovery cycle. In recent months, there is no doubt however that concerns over a global macro slowdown have begun to mount in seriousness.

Global trade conflict, together with mixed economic survey data and rising global interest rates, have all weighed adversely on financial markets. The FTSE AllShare index has fallen 11% from recent peak to recent trough and the more cyclical FTSE Support Services index has fallen by 14% on an equivalent basis.

The benchmark 10-year US Treasury yield, 3.219% right now, is also just a shade below the multi year peak of 3.261 percent reached a month ago.

Figure 15: US vs UK 10 Year Benchmark bond yields

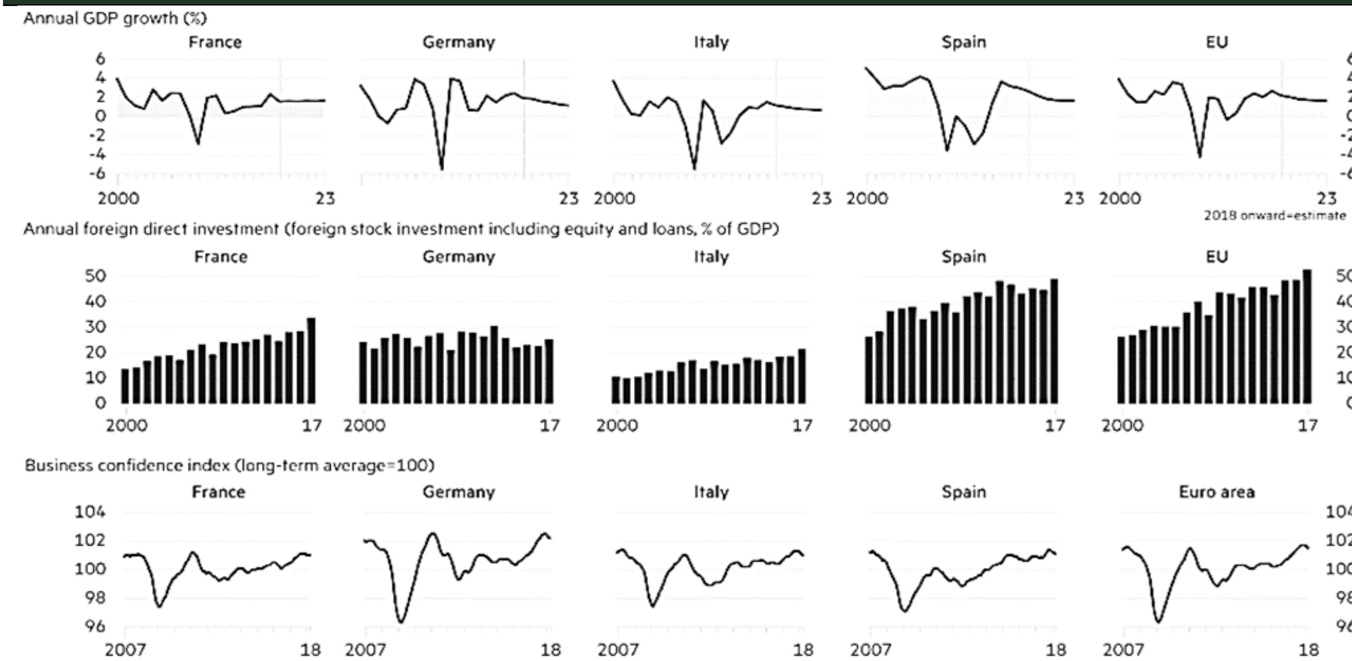


Source: FactSet

In the previous cycle we had strong earnings growth for professional staffers post yield curve inversion. However, these later proved too optimistic with subsequent earnings downgrades during the recession. However, Brexit and concerns over a slowdown from a possible yield curve inversion could put any over-optimistic earnings upgrades under the microscope.

Recently the IMF has downgraded its 2018 estimate for global growth to 3.7% from 3.9%. Closer to home, Europe's economy is now forecast to slow from 2.8% in 2017, to 2.3% in 2018, and 1.9% in 2019. SThree itself is disproportionately exposed to Europe, so this is the key focus of the economic outlook now. In context, however, Europe's current economic expansion is one of the most long-lasting in recent decades, fuelled by domestic demand, high employment and wage growth. This is depicted below in charts, across the major economies and the EU, in terms of GDP, FDI and long-run business confidence.

Figure 16: Key European economic indicators



Source: OECD, Financial Times

Germany, which is a key market for SThree, deserves a specific mention as the recent macro news-flow has not been particularly positive. Germany is an especially attractive staffing market for a number of reasons, regardless of short term macro swings. First and foremost; Germany is the largest STEM market in Europe and the resilience of these specific industries and the contract model should insulate from the worst effects.

Furthermore; Germany is still relatively immature from a staffing agency perspective. Compared to markets like the UK and the US (where staffing intermediaries account for 70% - 80% of the market), agency penetration in Germany is still relatively low at c.30%. This implies a significant structural opportunity where SThree enjoys a market leading position.

The recent October IHS Markit services PMI (Purchasing managers' index) revealed the slowest pace of UK growth since Q1. The headline reading fell to 52.2 in October, down from 53.9 in September and below market expectations of 53.8. Services account for c80% of the UK economy. It is hard to disentangle the impact of fraught Brexit negotiations from a wider slowdown in global growth. The weakness in the UK service sector was echoed by indications of a slowdown in the euro area. For example, the October eurozone services PMI fell to its lowest level since 2016.

At the same time, sharp falls in the PMI surveys should be seen in context. PMI measures sentiment not output and reflects a decline in business confidence, rather than actual activity levels. The drop in PMIs after the original Brexit vote in Q3 2016 was not subsequently reflected in the official UK growth figures.

Likewise, US growth remains strong and inflation is in fact trending higher, with tightening monetary policy. The recent U.S. midterm elections delivered a divided Congress, which probably reduced the prospects for further fiscal stimulus.

In terms of staffing, advanced economies are suffering from capacity constraints. Importantly, the seasonally-adjusted unemployment rate in the euro area was 8.2% in Q3 2018, the lowest level since Q4 2008.

In some cases, Brexit and the departure of the UK from the EU framework could be a net positive for SThree. For example, Paris, Berlin, Frankfurt, Dublin and Luxembourg are all potential beneficiaries from any shift in financial services jobs and the associated investment.

Staffing sector trading updates

SThree – Q3 update – 14th September

- Group gross profit up 13%;
- Continental Europe up 24% (DACH up 21% and Benelux up 33%);
- UK gross profit down 10%;
- Contract gross profit up 14% and Permanent up 8%.

"Continental Europe, our largest region, continued to grow strongly, with both DACH and Benelux delivering record performances, and the USA posted a solid result against strong prior year comparatives … Looking ahead, trading conditions in the majority of our markets are encouraging and we enter Q4, our most significant trading quarter, with confidence in our full year prospects."

– Gary Elden, CEO

Hays – Q1 update – 11th October

- Group gross profit up 7%;
- Germany and RoW gross profit up 12%
- UK gross profit up 3%
- Contract gross profit up 6% and Permanent up 9%.

"We have made a good start to our financial year, delivering another record quarterly net fee performance. Against increasingly tough comparatives, net fees in our International businesses grew by 11% … Looking ahead, while we are mindful of macroeconomic conditions, the outlook remains positive across our International markets."

– Alistair Cox, CEO

PageGroup – Q3 update – 10th October

- Group gross profit up 17%;
- EMEA gross profit up 19%
- UK gross profit up 1%
- Contract gross profit up 13% and Permanent up 19%

"We are pleased with the Group's continued strong performance and now expect 2018 operating profit to be marginally ahead of the consensus of current market forecasts"

– Steve Ingham, CEO

Robert Walters – Q3 update – 9th October

- Group gross profit up 12%;
- Europe gross profit up 21%
- Asia Pacific gross profit up 15%
- UK gross profit up 4%

"The Group has delivered a record third quarter performance with net fee income growing 13% in constant currency and the Board remains confident that profit before tax for the full year will be in line with current market expectations …. we are well positioned to further benefit from market opportunities as they arise."

– Robert Walters, CEO

It can be seen from the above that recent trading commentary across the immediate peer group has been broadly positive. The Hays update was the weakest on paper and resulted in a 10% share price decline on the day. SThree, on the other hand, saw a 7% share price gain.

So based purely upon this UK Plc commentary, there is no evident meaningful slowdown amongst the peer group. This informs our confidence on the outlook for SThree. Amongst the more generalist European listed staffers, the trend is less satisfactory.

Adecco – Q3 update – 6th November

"For the July-September quarter revenue growth - when adjusted for trading days and currency changes - halved to 2 percent, from 4 percent in the second quarter, the situation reflected earlier comments about tough markets in Europe and that sales from placing office and blue-collar workers in the United States and Britain was flat Q3. In September we said we didn't see the growth picking up after the summer period ... the growth we saw is not coming back."

Randstad – Q3 update - 6th November

Randstad's sales in France and Germany fell 1% and 2% respectively in the quarter.

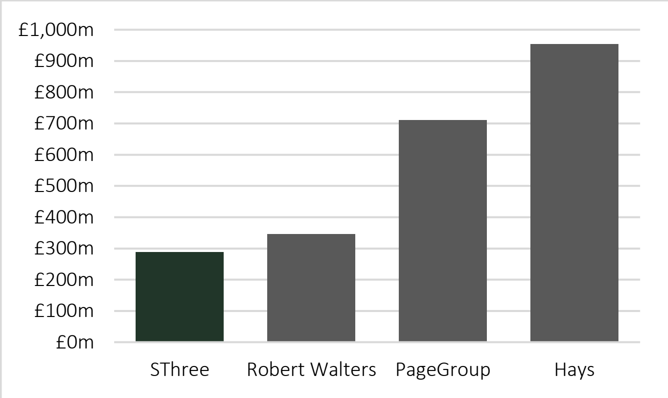
"We do not assume a big turnaround in Europe," CFO Henry Schirmer said, adding that the company does not expect a fourth-quarter return to growth in Germany and France. *"We plan for the worst and hope for the best."*

SThree Peer Group Context

SThree Plc is one of the four main Professional Staffing stocks quoted in the UK market. This group comprises Robert Walters, Page Group and Hays. In our view, SThree enjoys a clearly differentiated positioning and strategy.

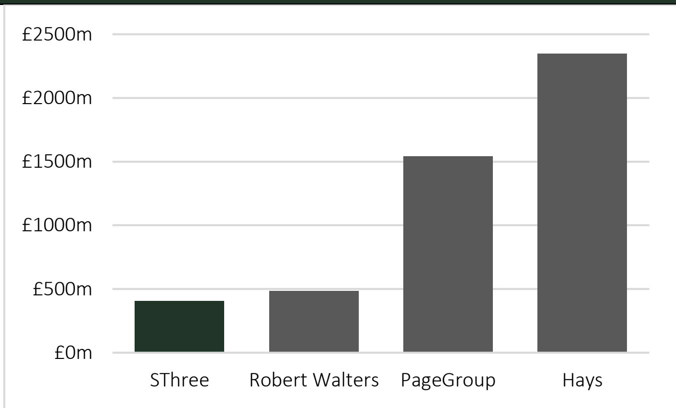
Figure 17: UK Professional Staffing peer group

Gross Profit FY2017, £m



Source: SThree, FactSet, Radnor

Market Cap, £m



Source: SThree, FactSet, Radnor

Beyond these four are a number of more specialist Staffers, such as Staffline and Impellam. In mainland Europe, the headline peers are Adecco and Randstad.

The UK staffers are all more diversified than in previous cycles. In term of pure UK exposure, SThree has seen the greatest diversification away from the historic, core domestic market:

- **SThree** now 18% (vs, 56% in 2018);
- **Hays** at 24% (vs 66%),
- **Page** 20% (vs 40%).

This is very relevant with an uncertain Brexit outcome front of mind as it immediately mitigates the risk of a domestic cyclical slowdown. With greater Asia exposure than in the past, professional staffers are also exposed to higher wage inflation. Such diversification does reduce the probability of all the markets they operate in being in a "sweet spot" at the same time as they might have been in the later stages of previous cycles but it does reduce the headline impact of potential domestic revenue volatility.

The global recruitment industry is vast. At face value, recruitment is also a very competitive and diverse marketplace, with more than 24,000 recruitment agencies in the UK alone. This fragmentation points to low barriers to entry. Costs of operations are low; there are few, if any, regulatory barriers and staff turnover can be high. It is therefore unsurprising that the larger players, such as SThree, have focused on leveraging their international and internal scale advantages and investing in markets, or specialisms, that offer greater intrinsic competitive advantages and barriers to entry. In SThree's case, we can see this with the emphasis on:

1. **STEM target market focus** – 98% of gross profit
2. **Short Term Contractor placement** – 72% of gross profit
3. **International exposure** – 82% of gross profit

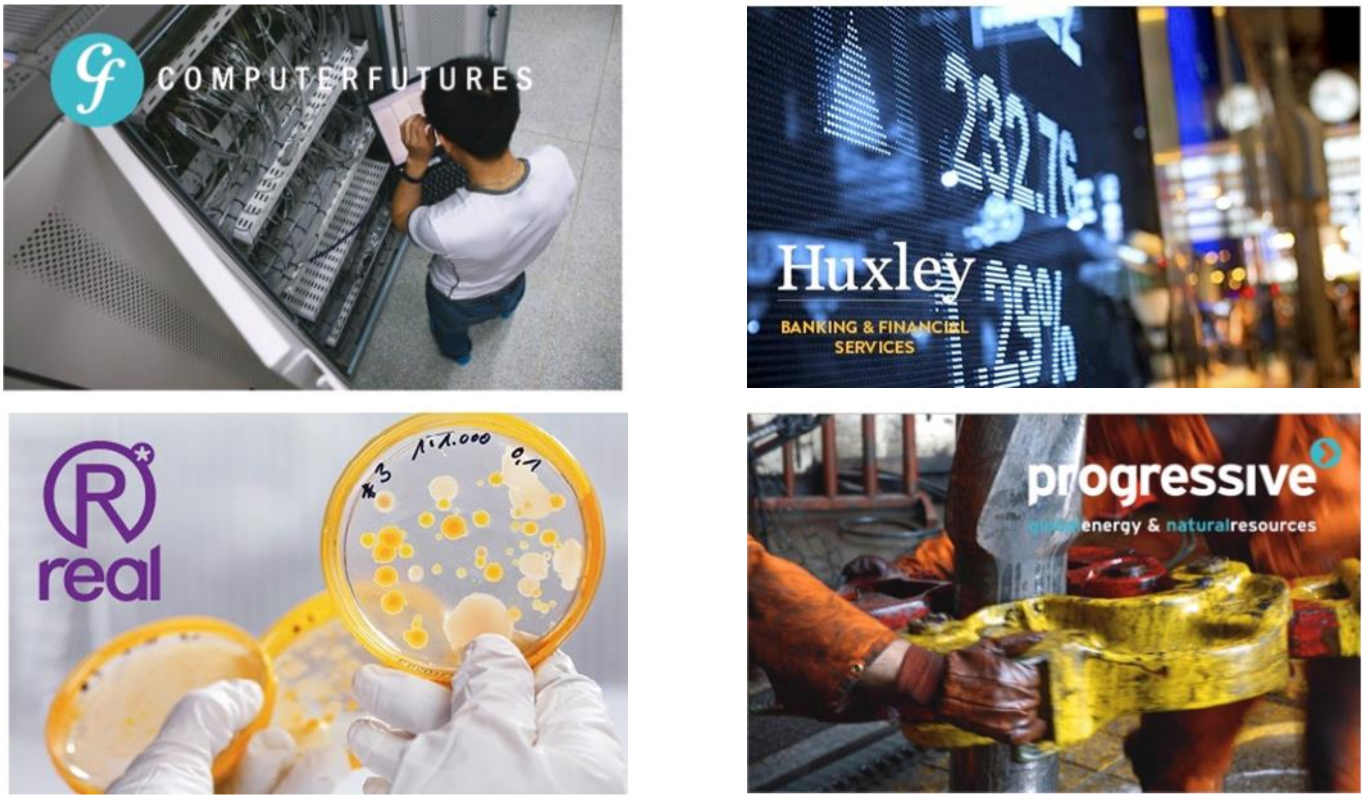
SThree History, Structure and Management

SThree can traces its roots back to the mid 80s, and the specialist IT recruitment agency, Computer Futures. SThree floated in 2005 and since then has grown organically.

- SThree employs circa 2,800 staff operating out of 43 offices in 16 countries;
- SThree employs circa 2,200 sales heads of which 80% are based outside the UK with 1,500 focused solely on the Contract market.

SThree PLC itself does not operate as a trading brand; instead operating as a holding company for a portfolio of specialist, customer facing brands. The key subsidiary brands are highlighted below with their prime focus on IT, banking and financial services (middle and back office, IT, risk management, special projects), life sciences and energy / engineering.

Figure 18: SThree Key STEM specialist brands



Source: SThree

Sitting alongside these four core STEM brands are a further six subsidiary brands that target specialist customer and service niches. Given a fast-moving and dynamic employment marketplace in the developed economies; there are invariably overlaps and individual agency brands will, occasionally, compete where shareholder value can be protected or enhanced.

SThree is active in multiple locations, through an international office network. For reporting purposes, this is broken down as UK & Ireland; Europe; USA and Asia Pacific. Europe is the largest region by gross profit (or net fee income), representing 56% of group gross profit at HY2018.

SThree has publicly highlighted the following regions as meeting the criteria for further investment going forward:

- US;
- Germany;
- Netherlands;
- France;
- UK (selectively);
- Japan

Overall, SThree's regional exposure maps the largest recruitment markets in the world.

SThree's senior executive management team comprises:

- Gary Elden (CEO);
- Alex Smith (CFO);
- Justin Hughes (COO).

Gary and Alex were appointed to the Board in 2008. Gary succeeded Russell Clements in 2013, having been Deputy CEO and Chief Strategy Officer previously. Gary first joined Computer Futures in in 1990 and subsequently became the founding Managing Director of Huxley Associates before taking on a more central PLC role. Justin Hughes has also been on the Board since 2012.

In the UK, SThree has undertaken a significant internal exercise in relocating the vast majority of the UK headquarters, group support and marketing functions to Glasgow (c.250 roles in total). The cost of this exercise is expected to total £14m - £15m, with £9m recognised as exceptional costs to date. Current guidance is for a further £5m of exceptional costs in the second half of the current financial year. SThree will also be entitled to a Regional Development Grant of c.£2m, which will partially offset the total cost. The future annualised P&L benefit to the group is estimated at £4m - £5m per annum and the entire project is expected to break-even within three years.

The SThree Executive DIrectors and many of senior managers have significant holdings of SThree stock. We estimate insider ownership (including SThree founders) at c.12%.

There is also a Tracker Share Scheme which allows selected management to buy a stake in the business for which they are responsible, making them part-owners rather than simply paid managers.

Low barriers to entry into the recruitment market make it a challenge to retain senior staff and these tracker shares (also known as 'MI') help to retain staff. This is unique in the sector and helps drive strong retention and ownership behaviour at a senior level.

- Strong governance via MI steering committee
- 2017 settlements £3.2m (2016: £4.6m, 2015:£8.5m)
- Expect future settlements to be £5-£10m in shares per annum
- Settlements entirely at SThree's discretion - no put option

Financials & Estimates

Within the Contract business, we understand there are two broad recruitment models employed:

1. **Straight Fee** – This is more akin to the Permanent model whereby the candidate does not "pass through" SThree's books. The candidate is paid direct by the client and SThree's ongoing fee is billed in arrears by SThree. Here SThree faces a fairly standard timing effect on working capital dictated the invoice payment terms specific to each client;

2. **Pass Through plus Fee** – This is also known as the "Employed Contract Model" or ECM. In this situation, the candidate is paid via SThree. The gross cost (including SThree's fee) is invoiced back to the client under strict payment terms. Although SThree margins are higher under the ECM model (the client is effectively "renting" the SThree balance sheet and outsourcing many of the HR administrative elements), this model is more cash consumptive. We estimate that ECM currently represents c.20-25% of Contract gross profit. Beyond the margin benefit, a major attraction for SThree is the extent this embeds SThree deeper within the client / partner.

H1 FY2018 results

Prior to the Q3 trading update released in September, SThree announced its H1 FY2018 results on 23rd July. The key financial headlines were:

- Group gross profit +11% on a constant currency basis, +10% reported to £148.4m;
- Adjusted EBIT of £20.4m and PBT of £20.3m, both +6% yoy
- Adjusted EPS +5% to 11.6p
- Interim dividend maintained at 4.7p
- Net debt of £6.2m vs £5.2m of net cash in H1 FY2017.

Operational highlights included:

- Accelerating momentum experienced in Q2.
- Contract gross profit +14% yoy, with Permanent gross profit +4% yoy;
- Continental Europe gross profit +18%, USA +9% with the UK declining by 2% yoy.
- Permanent productivity increased by 3% yoy.
- Period end sales headcount up 6% yoy.
- Average sales headcount up 10% yoy.

The decline in EBIT margins (or operating conversion in SThree parlance as this is defined as EBIT as a proportion of Gross Profit not Sales) was driven primarily by headcount investment during the period that had yet to deliver meaningful fee income. SThree also expensed £1.3m of innovation investment during H1, consistent with their policy of not capitalising this expenditure.

£2.1m of exceptional costs were recognised in H1, all relating to the Glasgow re-location exercise. Combined with exceptional costs recognised in FY2017, this amounts to £9.1m already booked. A further exceptional charge is expected in H2 of c.£5m - £6m, which will mark the completion of this exercise.

The swing from net cash at H1 FY2017 to £6.2m of net debt, was driven mostly by the continued growth in the Contract business and the working capital investment required. The cash costs of the Glasgow relocation were also a factor here.

SThree also successfully re-negotiated its banking facilities during the period, which were extended to May 2023. These comprise:

- Revolving Credit Facility of £50m with an uncommitted Accordion facility of £20m
- These facilities were drawn £22.5m at the half year, with the group maintaining a gross cash position of £31.8m
- SThree also maintains a £10m uncommitted overdraft facility;
- Drawn facility costs are 3 month LIBOR plus 1.3%.

Capital Markets Day Goals

At the November 2017 Capital Markets Day, SThree outlined its key financial objectives out to 2022. These were subsequently re-confirmed at the H1 results in July 2018. The key, base case aspirations were as follows:

- Gross Profit – Base case aspiration of £400m by 2022. This implies a 7% CAGR based on the £288m of gross profit delivered in FY2017. In terms of contribution; growth in DACH and the USA will likely account for more than half of this gross profit growth with the remainder coming for selective growth in Asia Pacific and elsewhere in Continental Europe.
- EBIT - - Base case aspiration of £85m by 2022. This implies a 15% CAGR based on the £45m of EBIT delivered in FY2017. In terms of margin expansion this implies an EBIT margin of 21% by FY2022, a 6% point improvement. The key drivers here will be the improved scalability of the central group platform post the Glasgow relocation which will enable a higher proportion of gross profit drop through. Improved consultant productivity across the group will also be a material driver (in line with trends already established). These margin aspirations also fully factor the likely headcount investment required to drive gross profit growth.

For illustration, the low case aspirations were for a 3% gross profit CAGR out to 2022 (£330m) and a 7% EBIT CAGR (£60m).

To put out headlines estimates in context; we have taken a cautious view and we have landed approximately half way between the low and base case. Our FY2020E EBIT estimate is for £62.1m, which if rolled forward at 7% per annum would imply £71m by FY2022.

Key Estimates

SThree PLC

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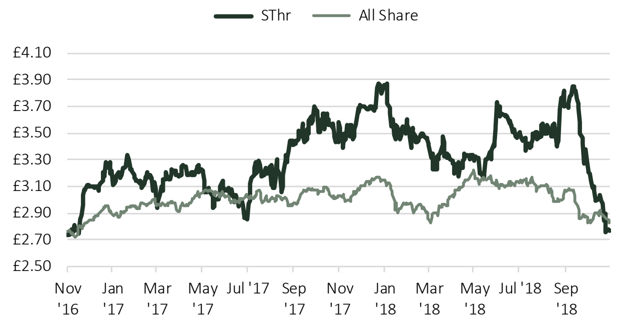
Price (p): **276 p**
Market Cap: 363 m
EV: 378 m

PROFIT & LOSS						
Year to 31 November, £m	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Group Sales	**848.8**	**959.9**	**1,114.5**	**1,243.0**	**1,357.0**	**1,417.0**
Europe	*103.7*	*126.8*	*149.6*	*173.0*	*195.0*	*210.0*
UK	*70.7*	*64.7*	*54.7*	*56.0*	*56.0*	*55.0*
North America	*44.8*	*51.7*	*63.3*	*69.0*	*75.0*	*80.0*
Asia Pacific	*16.5*	*15.5*	*20.1*	*19.0*	*21.0*	*22.0*
Group NFI	**235.7**	**258.7**	**287.7**	**317.0**	**347.0**	**367.0**
Op. Exp.	(192.2)	(214.8)	(237.0)	(260.5)	(284.4)	(299.0)
EBITDA	**43.5**	**43.9**	**50.7**	**56.5**	**62.6**	**68.0**
Depr & Amort	(5.1)	(5.7)	(5.8)	(5.9)	(5.9)	(5.9)
EBITA - Adjusted	**38.4**	**38.2**	**44.9**	**50.6**	**56.7**	**62.1**
Associates & JV's	-	-	(0.1)	-	-	-
Net Bank Interest	(0.7)	(0.5)	(0.3)	(0.4)	(0.3)	(0.3)
PBT - Adjusted	**37.7**	**37.7**	**44.5**	**50.2**	**56.4**	**61.8**
Non Operating Items	-	-	(6.7)	(8.3)	-	-
Other Financial Items	-	-	-	-	-	-
PBT - IFRS	**37.7**	**37.7**	**37.8**	**41.9**	**56.4**	**61.8**
Tax	(11.4)	(10.1)	(10.1)	(12.7)	(14.3)	(15.7)
Tax - Adjusted	(11.3)	(9.9)	(11.7)	(12.7)	(14.3)	(15.7)
Tax rate - Adjusted	*30.0%*	*26.3%*	*26.3%*	*25.3%*	*25.4%*	*25.4%*
Minority interests	-	-	-	-	-	-
No. shares m, diluted	133.0	132.0	133.0	135.0	135.0	135.0
IFRS EPS (p)	-	-	-	-	-	-
Adj EPS (p), diluted	**19.8**	**21.1**	**24.7**	**27.8**	**31.2**	**34.1**
Total DPS (p)	14.0	14.0	14.0	14.1	14.5	15.0

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS	
	% of ord. Share capital
JO Hambro Cap Mgmt	11.1%
Franklin Templeton	9.3%
SThree Founders	7.7%
Harris Assoc	5.1%
JPMorgan Asset Mgmt	4.3%
Allianz Global	4.2%
M&G	4.2%
UBS Asset Mgmt	3.5%
	49.4%

CASH FLOW						
Year to 31 November, £m	**2015**	**2016**	**2017e**	**2018E**	**2019E**	**2020E**
EBITDA	43.5	43.9	50.7	56.5	62.6	68.0
Working Capital	8.1	(4.3)	(7.7)	(21.9)	(6.8)	(3.5)
Provisions / Exceptionals	5.6	2.6	(2.9)	(14.0)	(4.0)	(4.0)
Gross Op Cashflow	**57.2**	**42.2**	**40.1**	**20.6**	**51.8**	**60.5**
Cash Tax	(10.8)	(8.5)	(10.9)	(14.0)	(12.7)	(14.3)
Cash Intererest	(0.7)	(0.5)	(0.3)	(0.4)	(0.4)	(0.4)
Net Op Cashflow	**45.7**	**33.2**	**28.9**	**6.2**	**38.7**	**45.8**
Capex	(8.6)	(6.1)	(5.8)	(5.3)	(4.8)	(4.5)
Free Cashflow	**37.1**	**27.1**	**23.1**	**0.9**	**33.9**	**41.3**
Dividends	(17.7)	(18.0)	(18.0)	(18.6)	(19.0)	(19.6)
Acquisitions & Inv.	2.0	(0.7)	(1.2)	-	-	-
Other Non Operating	(5.4)	(4.6)	(8.3)	(3.0)	(5.0)	(5.0)
Net Cashflow	**16.0**	**3.8**	**(4.4)**	**(20.7)**	**9.9**	**16.7**
Net Cash (Debt)	**6.2**	**10.0**	**5.6**	**(15.1)**	**(5.2)**	**11.5**

Announcements	
Date	**Event**
December 2018	*Q4 trading update*
September 2018	Q3 trading update
July 2018	H1 results FY 2018
June 2018	H1 trading update
March 2018	Q1 trading update
January 2018	Final results FY 2017

RATIOS					
	2016	**2017**	**2018E**	**2019E**	**2020E**
RoE	36.7%	40.6%	38.9%	36.9%	33.9%
RoCE	71.8%	68.2%	67.4%	50.9%	52.0%
Asset Turnover (x)	0.1x	0.1x	0.1x	0.1x	0.1x
NWC % Revenue	17.3%	18.5%	28.0%	27.6%	27.0%
Op Cash % EBITA	110.5%	89.3%	40.7%	91.4%	97.4%
Net Debt / EBITDA	0.1x	0.2x	0.1x	-0.3x	-0.1x

BALANCE SHEET						
Year to 31 November, £m	**2015**	**2016**	**2017e**	**2018E**	**2019E**	**2020E**
Intangibles	11.1	11.6	11.4	11.4	11.4	11.4
P,P+E	5.6	7.1	6.7	7.3	8.4	9.8
Tax Asset & Other	1.8	3.2	6.0	6.0	6.0	6.0
Total Fixed Assets	**18.5**	**21.9**	**24.1**	**24.7**	**25.8**	**27.2**
Current Assets	186.4	209.6	249.4	277.4	311.2	340.4
Current Liabilities	(144.4)	(154.9)	(190.7)	(203.6)	(220.7)	(229.7)
Net Current Assets	**42.0**	**54.7**	**58.7**	**73.8**	**90.5**	**110.7**
Long Term Liabilities	(1.1)	(0.9)	(2.1)	(2.1)	(2.1)	(2.1)
Net Assets	**59.4**	**75.7**	**80.7**	**96.4**	**114.2**	**135.8**

VALUATION					
Fiscal	**2016**	**2017**	**2018E**	**2019E**	**2020E**
P/E	13.1x	11.2x	9.9x	8.8x	8.1x
EV/EBITDA	9.1x	7.7x	7.0x	6.7x	6.1x
Div Yield	5.1%	5.1%	5.1%	5.3%	5.4%
FCF Yield	7.2%	6.1%	0.2%	9.0%	10.9%
NFI growth	9.8%	11.2%	10.2%	9.5%	5.8%
EPS growth	6.6%	17.1%	12.6%	12.2%	9.3%
DPS growth	0.0%	0.0%	0.7%	2.8%	3.4%

REGULATORY DISCLOSURES

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