



# **2006 Interim Results**

24 July 2006

## **Russell Clements - Chief Executive Officer**



Russell has been with the group since 1986 when he joined as a recruitment consultant. After a variety of Sales and Sales Management roles, Russell was appointed Sales Director of Computer Futures in 1992, and Joint Managing Director in 1998, during which time he was involved with the launch of new brands. He took up the position of Deputy Chief Executive Officer in September 2000 and progressed to Chief Executive Officer in March 2004.

## **Michael Nelson - Chief Financial Officer**



Michael joined SThree in March 2005, after leading the turnaround of the Bally Group in Switzerland, where he was Group CFO. Michael qualified as a Chartered Accountant with Arthur Andersen and has 30 years of experience covering a broad range of industries and geographies.

Prior to Bally, Michael worked with EMI Plc for ten years, most recently as CFO for EMI Europe. He has also worked for Safeway Plc, Nortel and as a Corporate Strategy Consultant.

# Agenda



- Overview of the Group
- Operational Highlights
- 2006 Interim Results
- Strategy
- Outlook

# SThree - a portfolio of brands



# SThree - An Overview

- Specialist permanent and contract staffing business, founded in 1986
- Predominantly ICT with growing contribution from Banking & Finance, Accountancy, HR and Engineering
- Twelve brands, purely organic growth to date driven by expansion of existing brands and creation of new brands out of existing businesses
- Over 1,200 staff in 39 offices in 6 countries
- Home-grown management
- Significant equity participation by staff and management
- Business and management focused on absolute profitability
  - Avoid high volume/low margin model i.e. walk away from most PSAs - we never buy turnover
  - Strong “SME” franchise
- Broad, diverse client base of over 4,000 clients

# 30 UK offices

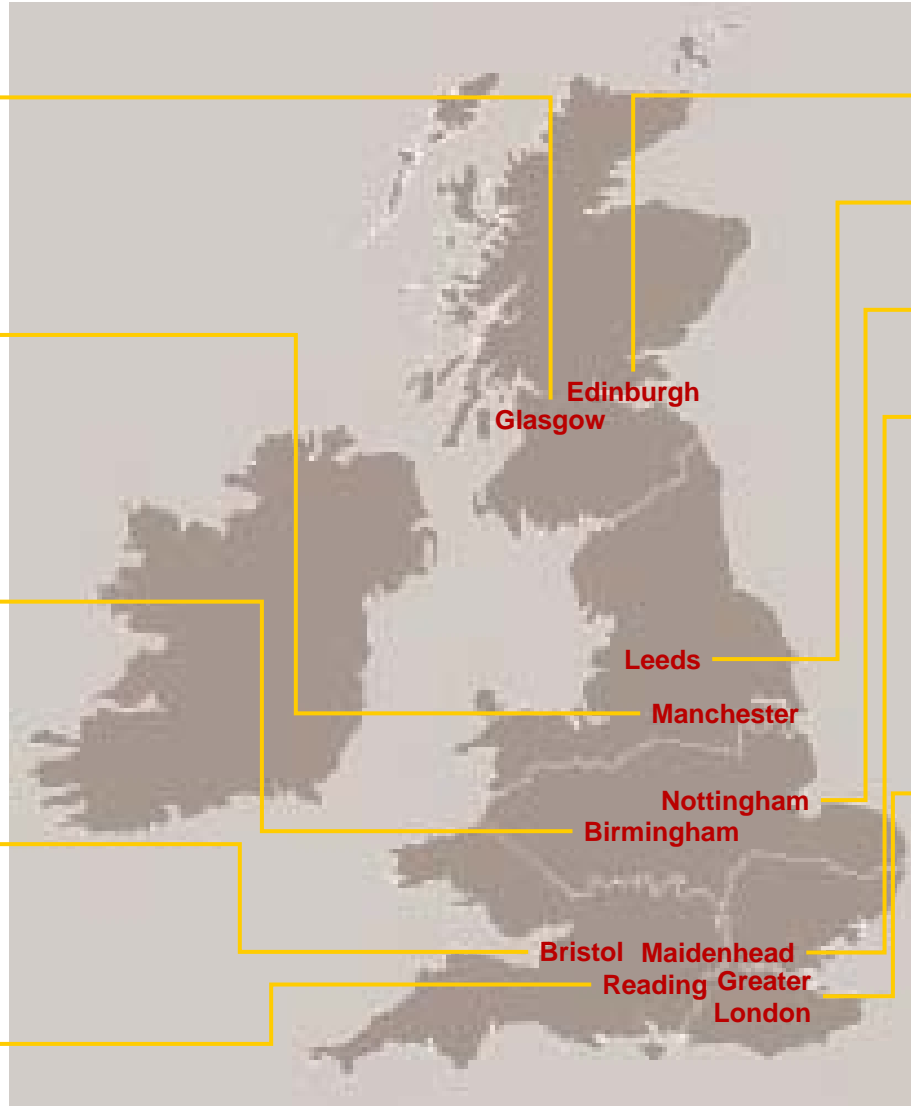
- Progressive

- Computer Futures
- Progressive
- Huxley

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- Huxley



- Computer Futures

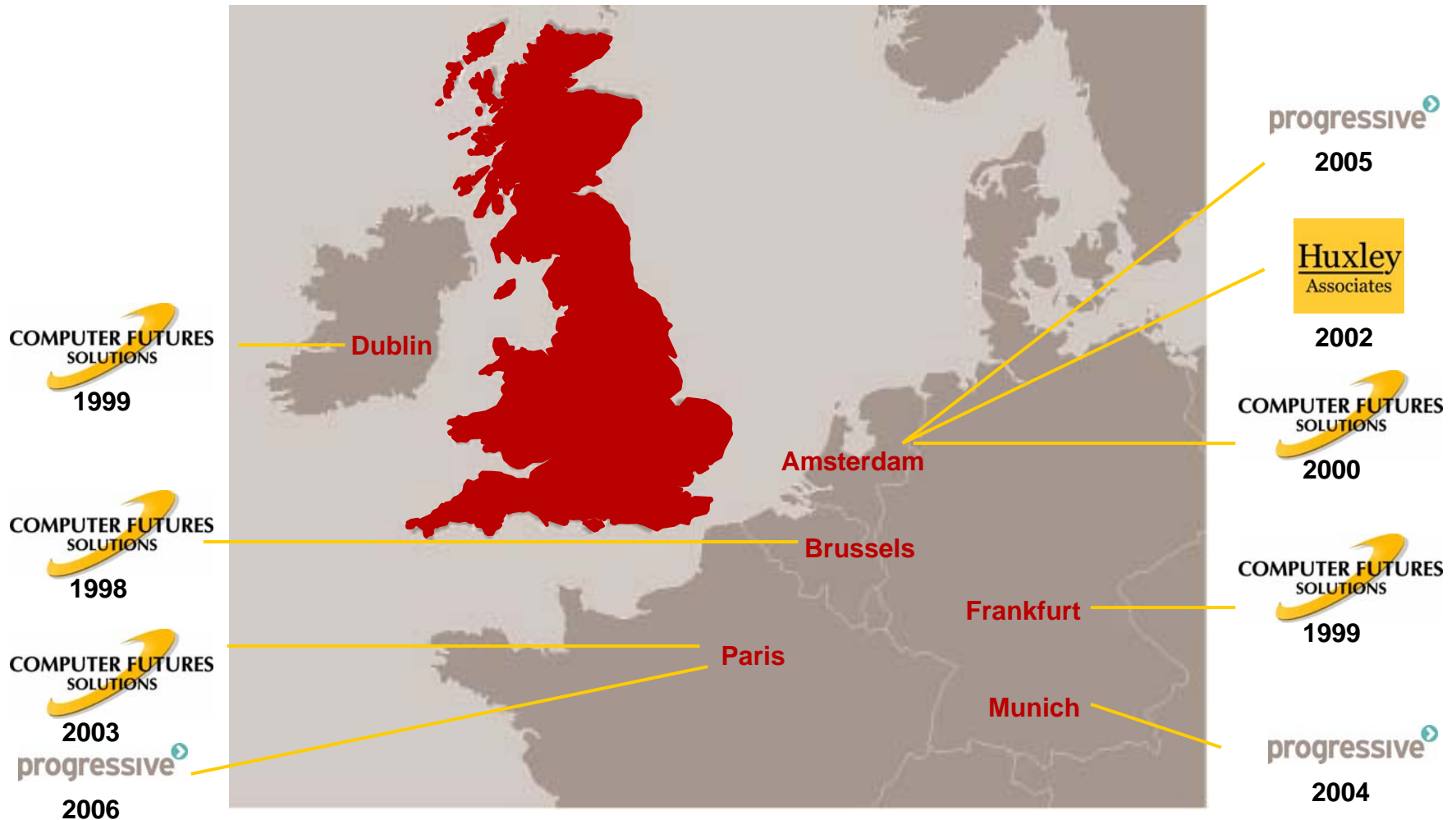
- Pathway
- Progressive

- Real IT

- Computer Futures
- Staff Search Group

- SThree HQ
- SThree Group Training
- Computer Futures
- Progressive
- Huxley
- Pathway
- Real IT
- Orgtel
- Madison Black
- JP Gray
- Strategic Resource Group
- IT Job Board
- Tactical

# 9 European office locations



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- ❖ Long established ICT franchise continues healthy growth
  
- ❖ Strong GP growth from four largest brands
  - Computer Futures 14.8%
  - Progressive 20.2%
  - Huxley 41.3%
  - Pathway 39.8%
  
- ❖ Newer, smaller brands also expanding rapidly - 42.9% GP growth on average (almost all UK)
  
- ❖ Non-ICT GP growth 70.4%
  
- ❖ Non-UK GP growth 43.7%

# Interim Financial Highlights



| £m  | 2006  | 2005  | Change    |
|---|-------|-------|-----------|
| Turnover  | 178.0 | 143.5 | + 24.0%   |
| Gross Profit (Fee Income)   | 59.2  | 46.0  | + 28.7%   |
| Operating profit before exceptional items*  | 15.1  | 10.5  | + 44.0%   |
| Conversion ratio  | 25.6% | 22.9% | + 2.7 pps |
| Profit before tax and exceptional items*  | 14.5  | 9.7   | + 49.2%   |
| Earnings per share before exceptional items (2005 adjusted for new post-IPO capital structure*) | 8.1p  | 3.3p  | +145.5%   |
| Interim dividend  | 2.4p  | -     | -         |
| Average headcount   | 1,166 | 1,020 | + 14.3%   |

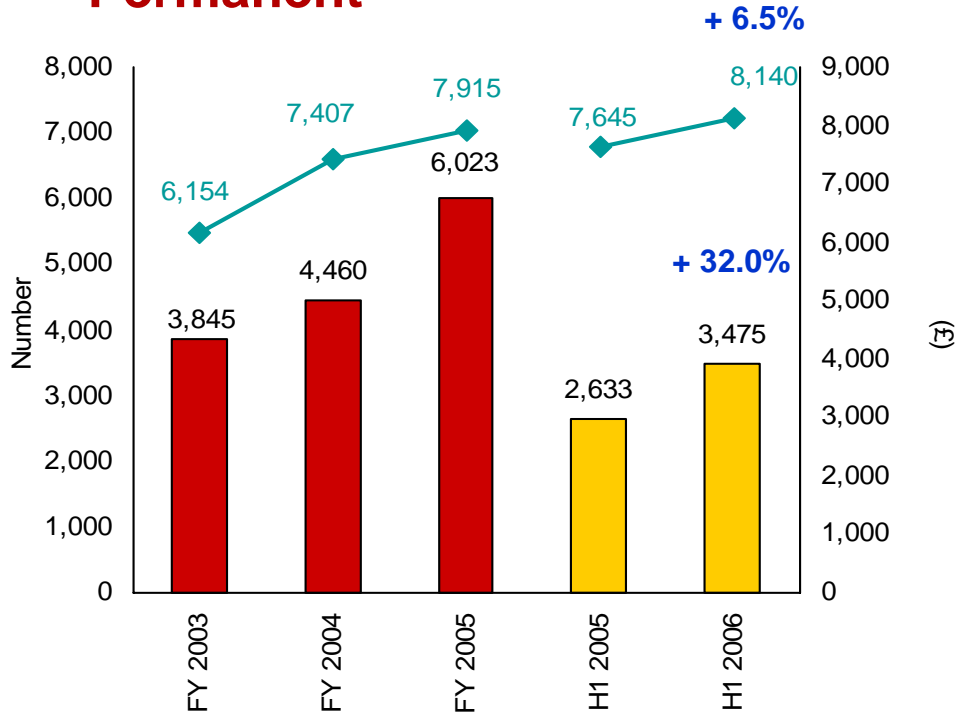
Note: Conversion Ratio = EBITA (pre-exceptionals) to gross margin

\* Exceptional items relate to employee share awards and related costs

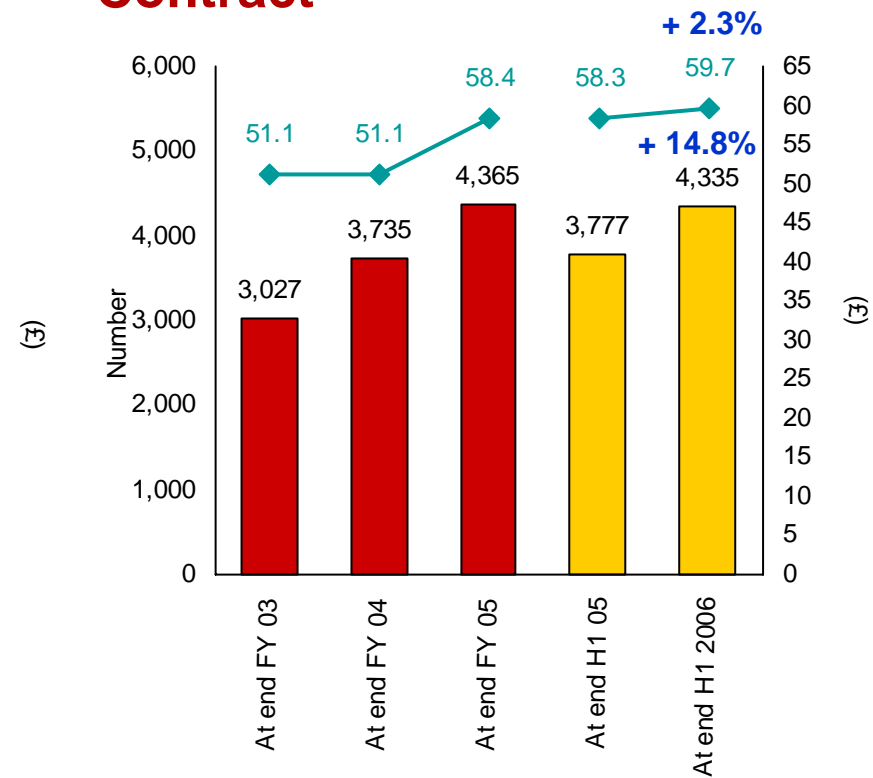
# Key Performance Indicators



## Permanent



## Contract



**Notes:**

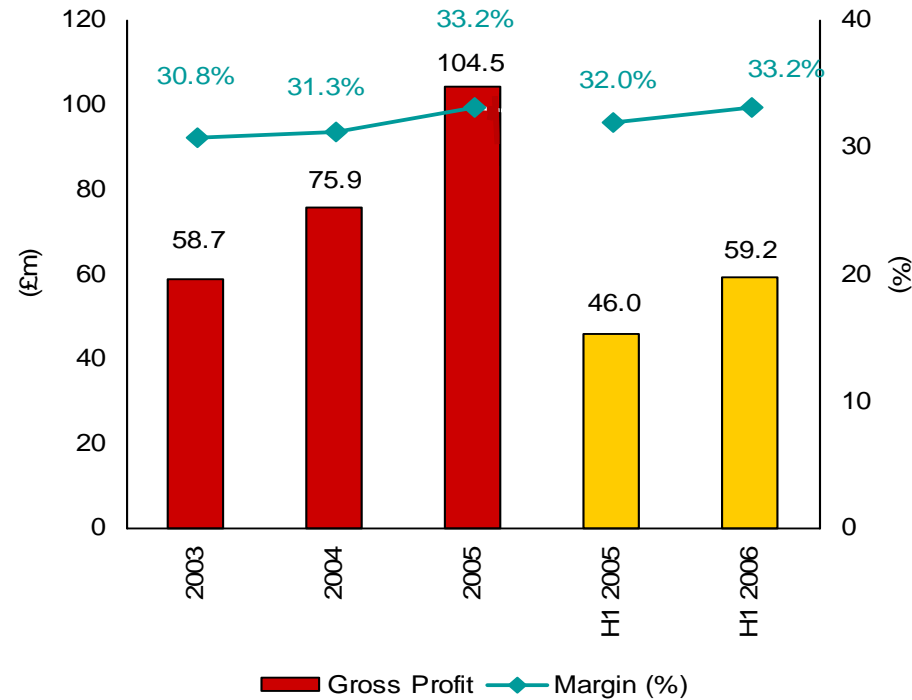
Contractors of the Group that are on a placement with one of the Group's clients at the end of the relevant period

Candidates the Group has placed with clients on a permanent basis and for whom it has sent the client an invoice during the relevant period

The average permanent placement fee is calculated using the total placement fees for the relevant period, including the ITJobBoard advertising income, divided by the number of placements for the period

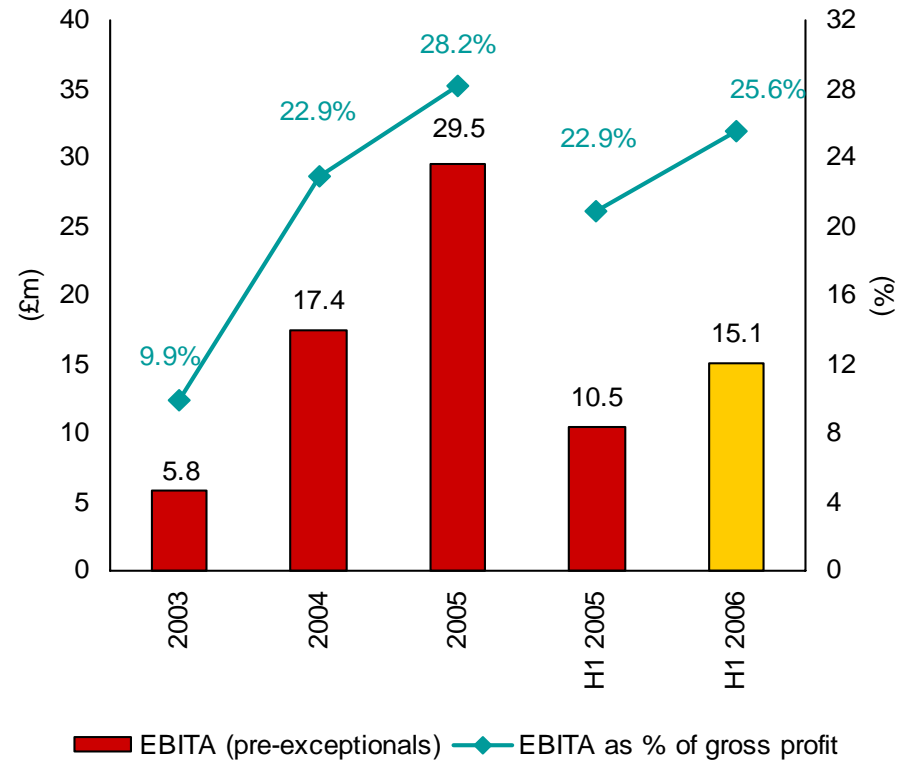
The average gross profit per day per contractor is calculated by taking gross profit from contract staffing for the period and dividing by the average number of active contractors and the number of working days in the period

# Growth Story - Gross Profit



**Recent margin % growth driven by increased perm mix**

# Growth Story - EBITA



**Continued healthy growth in EBITA, reflecting strong operational gearing  
Conversion ratio increases to 25.6%**

Note: EBITA is operating profit before goodwill amortisation and exceptionals (share award costs and special management bonuses to compensate for lack of dividend on Preference Shares)

- First reported results under IFRS
- No significant impact on reported results
- 2005 results restated in line with IFRS
- Key impact is Schedule 23 tax credit split between Income Statement and Equity

# Income Statement



## Before Exceptional Items

|                   | <b>2006</b>  | <b>2005</b> | <b>Change</b> |
|-------------------|--------------|-------------|---------------|
|                   | <b>£m</b>    | <b>£m</b>   | <b>%</b>      |
| Turnover          | <b>178.0</b> | 143.5       | + 24.0        |
| Gross profit      | <b>59.2</b>  | 46.0        | +28.7         |
| Operating profit  | <b>15.1</b>  | 10.5        | + 44.0        |
| Net interest      | <b>(0.7)</b> | (0.8)       |               |
| Profit before tax | <b>14.5</b>  | 9.7         | + 49.2        |
| Taxation          | <b>(4.2)</b> | (3.3)       |               |
| Profit after tax  | <b>10.3</b>  | 6.4         | + 61.1        |

**Effective tax rate reduces to 29% (2005: 34.3%)**

- Tax charge on ordinary activities before exceptional items was £4.2m, an effective tax rate of 29.0%
- Total Schedule 23 tax benefit amounts to £1.8m, of which £0.6m appears in exceptional items and £1.2m as a credit to equity
- Further Schedule 23 tax losses in 2006 forecast to eliminate any UK tax liability

# EPS & Dividends



| Basic Earnings/(loss) per share   | 2006        | 2005  | Change  |
|---|-------------|-------|---------|
| Basic earnings per share before exceptional items (2005 comparatives adjusted to reflect new post IPO capital structure)* | <b>8.1p</b> | 3.3p  | +145.5% |
| Basic   | <b>6.9p</b> | 9.5p  |         |
| Before exceptionals   | <b>8.1p</b> | 11.0p |         |

## Dividends

- Maiden interim dividend of 2.4p per share payable on 22 September 2006 to shareholders on the register at 25 August 2006
- Intend to pay dividends at a level sustainable through the cycle and in line with comparable quoted businesses

\* IPO occurred on 16.11.05

Weighted average number of shares in issue for H1 2005 was 37.1m

Number of shares in issue at 31.05.06 was 138.0m

Number of shares used in EPS calculation (i.e. excluding EBT) is 125.9m

# Cash Flow



|   | 2006<br>£m | 2005<br>£m |
|---|------------|------------|
| Operating profit                          | 12.5       | 8.9        |
| Exceptional items *                       | 1.9        | -          |
| Depreciation/sale of fixed assets         | 0.7        | 0.6        |
| Increase in debtors                       | (8.9)      | (6.6)      |
| Increase/(decrease) in creditors          | (7.7)      | 2.9        |
| (Decrease)/increase in provisions         | 0.7        | (0.3)      |
| Net cash inflow from operating activities | (0.8)      | 5.5        |
| Net interest paid                         | 0.6        | 0.7        |
| Taxation received/paid **                 | 2.0        | (2.6)      |
| Net capital expenditure                   | (1.4)      | (1.3)      |
|   | 0.4        | 2.3        |
| Preference dividends                      | -          | (4.5)      |
| Net cash inflow before financing          | 0.4        | (2.2)      |

\* Exceptional items relate to non-cash element of the P&L charge for employee share awards and related costs

\*\* Tax received relates to Schedule 23 clawback of 2005 tax paid on account

# Balance Sheet



|                    | 2006<br>£m | 2005<br>£m |
|--------------------|------------|------------|
| Tangible assets    | 3.5        | 2.6        |
|                    | 3.5        | 2.6        |
| Debtors            | 95.9       | 76.5       |
| Creditors *        | (39.5)     | (37.8)     |
| Net Current Assets | 56.4       | 38.7       |
| Net Cash/(Debt)    | (9.8)      | 22.0       |
| Loan Stock         | -          | (39.9)     |
| Provisions         | (6.5)      | (5.0)      |
| Net Assets         | 43.6       | 18.4       |

# Perm/Contract Analysis



| <b>£m</b>           | <b>2006</b>  | <b>2005</b> | <b>Change</b> |
|---------------------|--------------|-------------|---------------|
| <b>Turnover</b>     |              |             |               |
| Contract            | <b>149.7</b> | 123.4       | + 21.3%       |
| Permanent           | <b>28.3</b>  | 20.1        | + 40.5%       |
|                     | <b>178.0</b> | 143.5       |               |
| <b>Gross Profit</b> |              |             |               |
| Contract            | <b>31.0</b>  | 25.8        | + 19.5%       |
| Permanent           | <b>28.2</b>  | 20.1        | + 40.5%       |
|                     | <b>59.2</b>  | 46.0        |               |
| <b>Gross Margin</b> |              |             |               |
| Group               | <b>33.2%</b> | 32.0%       |               |
| Contract            | <b>20.6%</b> | 20.9%       |               |

# Discipline Analysis



| £m                  | 2006         | 2005  | Change  |
|---------------------|--------------|-------|---------|
| <b>Turnover</b>     |              |       |         |
| ICT                 | <b>160.9</b> | 133.6 | + 20.4% |
| Other *             | <b>17.1</b>  | 9.9   | + 72.2% |
|                     | <b>178.0</b> | 143.5 |         |
| <b>Gross Profit</b> |              |       |         |
| ICT                 | <b>49.7</b>  | 40.4  | + 23.0% |
| Other *             | <b>9.5</b>   | 5.6   | + 70.4% |
|                     | <b>59.2</b>  | 46.0  |         |

\* Includes banking and finance, accountancy, human resources and engineering activities

# Geographic Analysis\*



| £m                  | 2006         | 2005  | Change  |
|---------------------|--------------|-------|---------|
| <b>Turnover</b>     |              |       |         |
| UK                  | 134.7        | 109.2 | + 23.3% |
| Europe & RoW        | 43.4         | 34.3  | + 26.2% |
|                     | <b>178.0</b> | 143.5 |         |
| <b>Gross Profit</b> |              |       |         |
| UK                  | 43.5         | 35.0  | + 24.1% |
| Europe & RoW        | 15.7         | 10.9  | + 43.7% |
|                     | <b>59.2</b>  | 46.0  |         |

\* Based on location of client

**“To be the most profitable specialist staffing services business in the UK and Europe”**

**Continue multi-brand strategy**

**Development  
of core UK  
ICT business**

**Development  
of non-ICT  
sectors**

**Further  
international  
expansion**

**Explore  
acquisition  
opportunities**

**Continue to drive operational efficiencies**

# Current Trading & Outlook

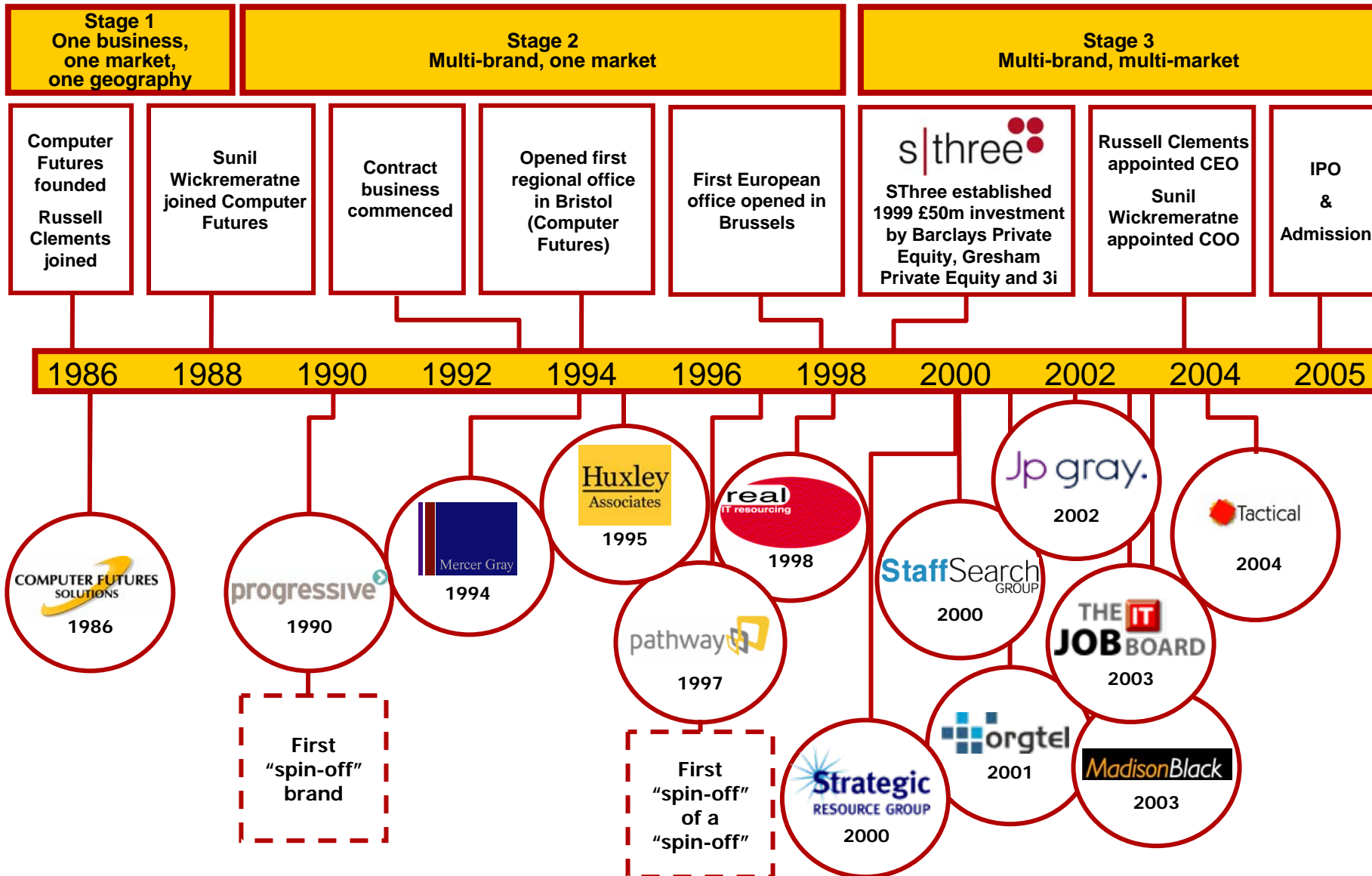


- Trading conditions in our specialist staffing markets remain positive
- Continued growth across all business segments
- Planned expansion: New York, Frankfurt and Munich
- Embryonic revenue stream being established in Far East
- Increase in consultant headcount remains a key management focus
- Confident on prospects for the remainder of FY 2006

# Appendix A

## Supplementary Material

# The development of SThree



# Why a multi-brand strategy?

Key driver of market outperforming growth in a fragmented market.

Allows us to keep "Brightest & Best"

Ability to test markets & concepts

Benchmark performance & share best practice

Market access - more "bites at the cherry"

Vehicle that sustains our entrepreneurial culture

Has created major market players and niche specialists

Competitive tension drives performance up and improves margins

Creates operational efficiency and shared economies of scale

# Minority stakes model

## Key employees + ideas + minority stakes

= ability to retain and incentivise key employees

= group benefit

### Ideas

- SThree
- Individual / entrepreneur
- New business - new sectors
- New market - new geographic areas (UK only at this stage)

### Criteria

- High performing key employees - entrepreneurial ability and skills
- Market opportunity - avoiding cannibalisation

### The deal

- Separate trading company
- Minorities invest at outset or later, at existing market price
- Immediate access to Group's infrastructure and shared services
- Currently minimum 3 year holding period then ability to swap brand shares for SThree shares or be bought out
  - Proposal to increase holding period for new minority stakes to 5 years

### Group minorities

- Directors and senior managers of SThree control the board of all minority-interest brands