Robert Walters plc

Q1 2024 Trading Update

16 April 2024

Analyst conference call transcript

David Bower: Good morning everyone and welcome to the Robert Walters 2024 first quarter trading update. As the operator said, I'm David Bower, the Chief Financial Officer and with me on the line this morning is Toby Fowlston, Chief Executive. Hopefully you've seen the release we published earlier this morning. Before we get to some Q&A, I'll briefly pull out a few of the most salient points from the first quarter as we see them at the group level, before Toby gives a few remarks on trading in our regions and the near-term outlook. Unless otherwise stated, all net fee income percentage movements are in constant currency terms.

So as we headlined this morning's statement, market conditions during the first quarter remained challenging, broadly consistent with what we were seeing as 2023 came to a close. In addition, the 16% year-on-year decline in group net fee income should be seen in the light of a tough comparative.

You should get a sense of that by considering that the first quarter of 2023 was flat on the first quarter of 2022, when labour demand globally was obviously at a peak following the pandemic. In reported terms, fee income was down by 21%, with the adverse foreign exchange impact primarily driven by the weakening Japanese Yen versus Sterling.

Recruitment net fee income of £68 million pounds was down by 15%, which breaks down as perm down by 17% and temp, being our contract and interim business, down by 10%. Temp continues, therefore, to be somewhat more resilient, albeit we did see some additional headwinds in New Zealand following last year's elections.

Outsourcing net fee income of £13 million pounds, earned through our Resource Solutions offering, was down by 22%. We saw lower volumes with some of our financial services clients, reflecting still difficult sectoral conditions.

In terms of the shape of the quarter, we continue to observe the typical profile with progression in fee income from January into February and then again into March.

Head count levels were down by 4% versus the 2023 year-end position at the group level. As well as adjusting in certain markets to match conditions, we're continuing to review the balance of our support functions between those that need to be in each local market and those that can be centralised in global service centres, as we outlined at our 2023 full year results last month.

We had £54 million pounds of net cash, excluding finance leases, at the quarter end, down from the circa £80 million pounds at the year-end, reflecting the typical Q1 working capital cycle. I'll now hand over to Toby for a few comments on trading around the regions.

Toby Fowlston: Thanks, David. Morning, everyone. I'll start with Asia-Pacific. Net fee income here was down 16%. We saw relative resilience continue in Japan where fees were down 4%, but we did continue to see a tougher trading backdrop in Australia and as David mentioned a moment ago, conditions did become more challenging in New Zealand, following the national elections late last year. In mainland China, we continue to see some stabilisation in conditions with fees actually up 1%.

In Europe, net fee income was down 14%. Belgium continued to stand out among our larger European markets with fees up 2%, but this was more than offset by both France and the Netherlands, where the first quarter performance was largely consistent with what we saw in the second half of last year, with declines of 15% and 12% respectively. Having said that, on a sequential basis, the Netherlands is broadly stable.

In the UK net fee income was down 20% overall. In recruitment, which excludes outsourcing, fee income was down 27% and trading remains challenging in both the regions and London. We did however see fee income grow sequentially in London for the first time in five quarters, and we'll of course be monitoring how that unfolds over the coming months.

In terms of the Rest of the World, fee income was down 16% overall, and down 9% excluding outsourcing. Conditions remain challenging in the USA, albeit the decline there moderated versus what we were seeing throughout 2023. The Middle East was down 12%, reflecting a very tough comparative. Partially offsetting the US and the Middle East was growth in the smaller markets of Brazil and Canada.

So in terms of outlook for 2024, as we look out across our markets at present, and despite some moderation in some of the macro indicators such as inflation, what we see generally is still low levels of client and candidate confidence, which we expect to remain a headwind on our fee income growth in the near term.

So with that in mind, and as mentioned in previous statements, we will continue to maintain tight cost discipline across our markets, and alongside this we remain focused on initiatives to strengthen our business as and when things return back to some strength. Particularly around our brand and making sure our customer offer is well positioned in the rapidly changing world of work and driving an improvement in our conversion rate over the medium term. With that said, I'll now hand back over to the operator and David and I will be very happy to take your questions.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question or make a contribution on today's call, please signal by pressing star, one on your telephone keypad. To withdraw your question from the queue, please press star, two. Again, that is star, one for your questions today. And our first question comes from Tom Callan from Investec. Please go ahead.

Tom Callan: Morning chaps. I've got three questions, if I may. Firstly, just in terms of the wider picture, are there any signs of inflection in terms of confidence and or activity levels in any specific geographies? Second question, where are we in terms of consultant productivity or placement levels, perhaps relative to pre-COVID? Just trying to get a feel for the extent of the potential snapback in earnings from improved consultant productivity. And then just on RPO, the statement alludes to good momentum in Workforce Consultancy. I just wondered if you could give us some examples of recent wins in that specific space and try and quantify the long-run opportunity there as well. Thanks.

Toby Fowlston: Thanks, Tom. Why don't I take the third question first, Workforce Consultancy, and I'll leave the other two to David? So Workforce Consultancy, which operates within our outsourcing business, it's something that is still relatively new. We are only taking it to our existing clients at the moment. Therefore, most of the clients are generally in the financial services space. In terms of long-run opportunity, as I mentioned, we started from scratch in 2022. We've got the capital markets day in the autumn, so we're going to set out more of what we see as the addressable opportunity for us then. But very much our view is it’s a sizeable market. We've had a lot of early success and we're feeling pretty good about the value that it brings to our clients and certainly the long-term role it's going to have in our business.

David Bower: Thanks, Toby. In terms of green shoots and inflection, I think the easy answer is not really. We're not seeing any significant inflection points. As we've said in the statement and in the commentary a few moments ago, there are some small pockets of potential stabilisation, China is stable. Belgium continues to perform well. But fundamentally there's no definite inflection point on the immediate horizon. And in terms of consultant productivity, looking at pre-COVID, the 2019 year, we're probably running circa 10% to 20% lower than that level of productivity at the moment. And then if you look at the COVID actual period of time as another reference point, through 2022, we were probably 20% to 30% above that level of productivity. So there's quite a wide gap, which therefore certainly gives us that conviction around holding the core consultant capacity for when that snap back, as you call it, happens, because given that productivity gap, there's certainly a lot of opportunity when the inflection point does come through.

Tom Callan: Thanks very much.

Operator: Thank you. And our next question now comes from Andy Grobler from BNP Paribas. Please go ahead.

Andy Grobler: Hi, good morning. Just two from me, if I may. Just on the cost control and the balance of business, what is your thinking at this stage and how has that developed in terms of supporting profitability through 2024 and making sure that you are in the right place for any inflection as and when it comes, because there's a bit of tension between those two things? And then secondly, just in terms of those end markets, to what extent do you think that the normalisation of markets after the post-COVID bubble has completed? If you look at the UK number of vacancies, it's still higher than it was in the period pre-COVID. Do you think that's normalised yet or not? And so to what extent is this just normal cyclical activity versus that process? I know it's a slightly broad question there. Thank you.

Toby Fowlston: Thanks, Andy. David, do you want to take the first question and then I'll pick up the second question?

David Bower: Yes. We're very focused on all aspects of cost. As we talked about at the year-end, we're very data-driven, quite surgical on the consultant level, so making sure we absolutely retain the muscle, as we call it. And that what we meant, that is about allowing the natural attrition, if it does exist, to flow through in markets where there's perhaps slight weakness. But where we've certainly seen strength and stability, we are very happy to recruit and put heads back into those markets. But in terms of the broader cost control, then we've been very focused on making sure we've got the right balance of support to the fee base and to the fee earner base. And then just other costs, obviously the largest part of our cost base is people, but we do also have an infrastructure and an operating capacity across 32 geographies that we're actively managing. So we're looking at all aspects of the cost to make sure that we are preserving the core capacity, but also preserving our earnings and the fees that we are earning in order to set us up ready for the inflection point.

Toby Fowlston: And then, Andy, on your second question, end markets normalisation post-COVID. It's interesting. I'm over in Germany at the moment, actually, visiting our business out here. Germany's probably the second most competitive market behind Japan in terms of candidate shortages. The reality is, as we all know, we have these low levels of unemployment, job levels have generally stabilised, so we're not seeing any dramatic downturn. There are some markets obviously, and you can see that relative to net fee income performances. Confidence is still low. Both client confidence and candidate confidence. We've obviously got a large portion of candidates that secured employment in '21 and '22 at relatively premium salary rates. And of course as we're starting to see inflation moderate a little bit, there is a little bit of pressure on clients in terms of what they can offer. So things are just a bit stuck.

We know that candidates are saying anecdotally that they are looking to move. We're not seeing much of that physical movement. We are seeing continued counteroffers and buybacks and of course there is ongoing negativity in the press. So everybody reading that is generally of the view, "Well, I'm going to stay put for the moment." So I don't know when that's going to change, but obviously a lot of the core components are there for us to see a better market, but that's just not what we're seeing at the moment.

Andy Grobler: And, Toby, can I just ask one follow up? Your peer mentioned that they were seeing more work go back in-house, certainly in Australia, UK and US. Is that something you're also seeing at this point?

Toby Fowlston: What we are seeing is we're seeing more pressure on candidates getting counter-offered, generally speaking, because clients are looking at the reality of having to rehire at a similar cost, obviously all the training and upskilling that's required in a market where there is generally low unemployment. So the options to hire are far more limited. So that is absolutely what we are seeing. I think the in-house option, it's always been the case that a lot of our clients will look to obviously hire from within wherever they can. But the simple fact is that we're seeing skill shortages all over the world, and that, compounded with the low unemployment is meaning that it is very hard for clients to find the right people.

Andy Grobler: Okay, brilliant. Thank you very much.

Toby Fowlston: Thanks, Andy.

Operator: Thank you. And as a brief reminder, that is star, one for your questions today. And up next we have Steve Woolf from Numis. Please go ahead.

Steve Woolf: Hi guys. Just two from me left. In terms of your thoughts on where fee rates sit at the moment compared to maybe 12 months ago. And then secondly the comments you've made about headcount and natural attrition playing out. Where are the regions at the moment where you are adding headcount overall? And following that, at this point with the current visibility and planning, etcetera, would you envisage finishing the year with more consultant heads relative to where you are now at the end of Q1? Thanks.

Toby Fowlston: Thanks, Steve. David, do you want to take the first question again and I'll take the second question?

David Bower: I think fee rates are holding up well, we're not seeing any decrease in the rate we're taking. Obviously, that has some marginal inflationary benefit as salaries are going up of the candidates we are placing and therefore our take, as it were, of that is increasing slightly. But fundamentally we're not seeing upward or downward pressure, particularly on fee rates. They're holding up well.

Toby Fowlston: And then, Steve, just on headcount generally, so essentially there's two ways to look at this. On the fee earner side, we are very reticent around cutting into the muscle. We have seen some fee earner growth in our Workforce Consultancy business. We're generally holding in Japan. We've seen some fee earner growth in some of our interim businesses, particularly in continental Europe, where we are seeing some good growth. We have reduced obviously, fee earners in some markets, generally where we've seen the most pressure on net fee income. So places like Australia obviously, the UK, the US, and probably more so China last year. So I think we'll end up largely flat on fee earner headcounts this year. We are looking at our non-fee earner headcount and where we can better utilise our global business service centres and that's part of our ongoing plan to look at better conversion rates and more efficiency.

Steve Woolf: Sure. That's great. Thank you.

Toby Fowlston: Thanks, Steve.

Operator: Thank you. And as there are currently no further questions in the queue, I'd like to hand the call back over to you, David, for any additional or closing remarks.

David Bower: I'd just like to say thank you from both myself and Toby to everybody who's taken the time to join this morning, and hope you all have a good rest of the day. So thank you very much.

Toby Fowlston: Thank you.