What this document shows:

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Sanitec CorpGeberit's public takeover offer Call - Final

~~3100 words~~
14 October 2014
~~CQ FD Disclosure~~
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~~English~~
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~~Presentation~~

OPERATOR: Thank you for standing by and welcome to the Sanitec conference call. (Operator Instructions). I must advise you that this conference is being recorded today, Tuesday, October 14, 2014. I would now like to hand the conference over to your speaker today, Mr. Nilsson. Please, sir, go ahead.

PETER NILSSON, PRESIDENT & CEO, SANITEC CORPORATION: Good morning to all of you. This is Peter Nilsson speaking, sitting in Dusseldorf, together with Gun Nilsson.

In light of the announcement made by Geberit this morning to put the bid on 100% of the shares in Sanitec and the fact that in their confirmatory due diligence they've had access to preliminary quarter 3 numbers on a high level from us, I think it's prudent to us to also allow all of you [a chance], together with us, to review these numbers and to discuss around that.

This will be fairly short from our side and then we will immediately open up for questions and answers.

As you probably have had a chance to read the offer document and the reply from the statement of the Board of Directors of Sanitec this morning, we have posted quarter 3 results that are up 2.1%, which is equal to what we have also for the year to date, 2.1%.

By doing so in a very scattered European marketplace, we have also managed to almost post an all-time high profit margin. In the quarter we have an EBIT margin of 13.4%, which is very high for us, and that gives us the year to date of 11.7%.

With that short introduction, actually, I would like Gun -- why don't you just go through the numbers in more detail and then we simply open up for Q&A, so we see where the discussion leads us.

GUN NILSSON, EVP & CFO, SANITEC CORPORATION: Thank you, Peter. First of all, I just want to say that the full interim report for the quarter will be published on October 24, so we are 10 days ahead with those key figures with some highlights which we have preliminary ready.

As Peter said, we have two things which have been good during the quarter. We are back on growth. We show a growth for the quarter of 2.1%, which also consolidates the year-to-date growth, which is done on the same level.

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The second thing is that we continue to improve our profits and our margins. And we have increased the operating margin by 10 percentage points compared to the quarter last year, and then report 13.4% operating margin. And what should be noted as well when we compare, we have no items affecting comparability 2014 in those figures.

If we then also calculate that back to EBITDA margins, that means that we show in the quarter 16.8% as an EBITDA margin. And that is actually on levels now that we reported when we had peak volumes during 2006/2007.

Going back to the different regions on growth, we are happy to say that we show a very nice growth in East Europe of 8.5% in the quarter, driven by Russia, Ukraine and the other six countries, mainly.

We also have a very good performance coming from the Nordic countries, from the North Europe, with almost 8% growth in the quarter, where we have nice contribution from all of the countries in the North, except for Finland, where we all know that we struggle with the macroeconomics.

UK & Ireland is continuing also growing, have almost 7% organic growth during the quarter.

And we see some positive also in the South, actually, because even if we show a decline in the region as a whole during the quarter with about 2% there, we had a growth in France during the quarter. It's still Italy that remains weak and still struggling with the macroeconomics on the markets.

Central Europe, we have a small decline during the quarter of minus 3 percentage points, roughly, and it's mainly driven by the Netherlands and Belgium, but also a little slowdown in Germany as well.

What we normally do also, and which we communicate, is, as you know, that we normally tie up cash during the first half year and release cash during the second half of the year. And in the Q3, we see the same trend as we have done in the past.

So that means that we generate good cash during the quarter as well, and then decrease the net debt down to EUR142 million net end of the quarter, which corresponds to a leverage of 1.3 times. And that is compared to what we had at the end of June quarter, which was then 1.6 times. So that is also continuing nicely improving.

And I think that is my comments for the quarter on the figures we have.

PETER NILSSON: Thank you very much, Gun. Yes, we will come back with a more elaborate presentation of the quarter and all the numbers and our analysis of what the environment around us gives on October 24. But here you got a little bit, both quality and quantity, about what I would say a pretty good quarter for us and fully in line with what we estimated when we talked last on the second-quarter road show.

So, with that, I think we're going to the question-and-answer session and open up to that instead of us just talking about things that are close to our heart. So if you then on the telephone can guide us for that Q&A session. Thank you.

Questions and Answers

OPERATOR: (Operator Instructions). Stefan Cederberg.

STEFAN CEDERBERG, ANALYST: Can you elaborate on the reason for the strong growth in the Nordic region in Q3 of 8% and also in East Europe? Is it an inventory correction again? Or is it end-market demand we are seeing in your numbers?

PETER NILSSON: It is very early days. I think the main contributing factor is end-market demand. And that is -- and you have followed on the Nordic scene, except for the Finnish market, actually, there is quite a momentum, in some cases a debate, about increased activity both on the RMI side but also on the new-build side. And that probably goes also for the CIS countries.

That being said, I think we have to get used to in quarterly reports that there are some swings between quarters and between months. And if those happen, so to say, a little bit wrong, you get swings between the quarters and that should not be over interpreted. I remember myself vividly saying look at the first half year, then you have seen a normalized environment for us in the pan-European market.

With the results of Q3, I think that prophecy has really come true. That is, we are exactly in line with what we had in the first half year, also where we have now booked the result for the third quarter. So with three quarters of the year gone we are at 2.1% organic growth, taking Europe as a whole.

STEFAN CEDERBERG: Have you seen any changes in demand during the quarter, i.e., did it end -- started strong and some changes in the latter part of the quarter?

PETER NILSSON: That becomes almost impossible when you talk to a Company like Sanitec to answer because quarter 3 has the Northern part of Europe, I don't say the Nordic part of Europe, going on vacation. And so we have July and August, which in our businesses are vacation months and we're in Europe, and then September is a normal high-activity month.

So by default September is an important month in that quarter for a pan-European player. So yes, but for the wrong reasons, so to say.

STEFAN CEDERBERG: Then a question on the bid. Do you see any overlap between you and Geberit, i.e., will there be any need for some divestment to get the acquisition through?

PETER NILSSON: Well, now I will give you a little bit longer answer than what you have actually asked because you gave me the in for it. I will take it from a purely industrial perspective at this point in time.

And, I must say, you will rarely come across such complementarity that you find between Geberit and Sanitec. We have the same roots and foundation in being market leaders, long lasting in those markets; often founders of the industry for the respective product categories; a very widespread pan-European footprint, with a limited global reach, but still a present global reach.

So I would say, from that complementarity aspect, there will be very little overlap that would cause divestment as I can see it now.

But all of this is, of course, going from being industrial logic to be legal logic and the competition clearance will be managed by Geberit and will be submitted for all these markets in Europe that we are active in. But, as I can judge it with my experience and with my understanding and knowledge about Geberit and Sanitec's product portfolio, I see very limited exposure for any divestments or hurdles that we need to pass.

STEFAN CEDERBERG: Okay. And then on Geberit's presentation they are saying that they are aiming for synergies of EUR45 million, a rather high number. Can you -- have you any comment on that synergy number?

PETER NILSSON: I managed to see a little bit and I think Mr. Baehny said very clearly in his presentation, when he got asked about the details of it, that he'd rather have that discussed with the management of Sanitec first. So I will then say on my behalf now here is I'd rather hear it from him first before I give you an answer. (laughter)

STEFAN CEDERBERG: All right.

OPERATOR: Stellan Hellstrom.

STELLAN HELLSTROM, ANALYST: I wanted to try that one also by just asking if you had any idea of that amount. How much -- what potential is there in costs relative to sales, given specifically the complementarity of the business should be still limited cost savings potentially?

PETER NILSSON: You cracked actually in the beginning of it. So I just heard the end and therefore I don't know really what --?

STELLAN HELLSTROM: Okay. The question was how much -- what share is potentially sales synergies and cost savings in this?

PETER NILSSON: Honestly, I don't know their calculation. It doesn't work like that when you have a public offer and a public confirmatory due diligence. You really have to stay in your corner while that process is ongoing. So I cannot answer what he has in mind, actually.

But philosophically, coming from the fundamental that this is complementary, you could actually say that when it comes how we produce our product, there will be limited scope for cost synergies in that, but on the supply side there might be some.

And then, of course, when it comes to SG&A and markets, how we work the markets in certain geographies, you might find more potential for synergies also.

But that is, I guess, work that the two teams of Sanitec and Geberit, that is something we ought to work out and we need to plan carefully in the next, I guess -- I don't know what is in Mr. Baehny's mind, but 18 to 24 months you would see the benefits also on the synergies side come through in a transaction and a deal like this.

But that's speculation from our side. As I said, we have not had a chance to discuss those in detail and, therefore, before that, I shouldn't be out justifying or advocating those synergies.

STELLAN HELLSTROM: Okay, very good. I don't know if you might want to give some more comments on your results improvement here in terms of gross margin or in terms of leverage. It seems the sales is not really increasing that much. If you can give some additional flavors on your results improvement.

PETER NILSSON: Well, I think an organic growth of 2.1% gives us the leverage that we have been talking about and the drop-through rate that we have. But the story -- I sound like a parrot on these quarterly reviews -- one Sanitec program continues to deliver the intended benefits.

And when we look at the revenue and cost enhancement that we see, we see that all levers are contributing with a little bit. We see price increases. We see mix improvement. We see cost efficiencies. We see the right balance and load factors in the network of factories. We see continued benefits coming through in pure SG&A as well with the most recent move into a shared [filing] center in Poland, for instance.

So all through the P&L -- we wouldn't be able to, with such certainty, deliver this margin enhancement if it was not coming through most parts of the P&L.

And also another reflection I think you should have is that the footprint or market exposure that we have in Europe is really an advantage for us when it comes to be resilient in the -- I don't know if I call it turbulent, but actually ups and downs of the fragile European recovery or the absence of it.

So the markets that performed well in the beginning of the year can be in a more sluggish mode now. And then we have another set of markets picking up and, with the profitability we have on these regions, we can continue to give you good profit capacity throughout.

So we are not dependent on a single market or a single sector market. I think the quarter proves that in a very vivid way, actually.

STELLAN HELLSTROM: Okay, very good. Thanks.

OPERATOR: [Laurence Munty].

LAURENCE MUNTY, ANALYST: If you don't mind, could you give me a bit better flavor for your markets with regards to RMI and new builds? Like have you seen divergence between the performance of new build versus RMI?

PETER NILSSON: Yes, but that is something we have seen for years now. What has happened since the Lehman crisis or things like that is that the RMI sector has been resilient. It has been closer to historical levels and it has also responded on governmental initiatives in certain markets.

So RMI, generally speaking, in most of the Western European markets has been an important aspect of our business. In those markets where housing transactions also have increased, we have seen that it has picked up, but that has been our platform for operations throughout these years.

The new-build sector, on the other hand, dropped significantly and explains a lot of why we are not close to trend or historical levels in Europe and in the different markets in Europe. And, I must say, we are probably still waiting for a significant uptick, broadly speaking, in Europe on the new-build sector.

But that's also the most politicized part of our business where you can read in different countries the need for get going and the need for balancing house prices would increase new-build activity. You have that in the Nordics and you have that in some of the other European countries as well.

But there is a divergence between the two parts of the business, definitely.

LAURENCE MUNTY: Understood, but is there a change in second derivatives? As you -- do you think that new builds in, let's say, Q3 was any different than new builds in H1? Is it getting better, is it getting worse?

PETER NILSSON: No, we have no indicators that this is saying that it's getting either or. Previously, I've been talking a little bit about the indicators that we use, but they lag a quarter. So, as we speak now, we are actually waiting for September numbers or Q3 numbers for these.

And what we have for the RMI side is, of course, we have housing transaction building permits and some completions and some of those are giving you a lead also into a new build and that -- but we don't have those numbers so I can't give you any hard facts about Q3.

LAURENCE MUNTY: Okay, understood. Thank you.

OPERATOR: There are no further questions. Please continue.

PETER NILSSON: Okay. If the questions are finished, then I think you, as well as we, have a lot of work cut out for us today. I thank you for the attention. I hope you got the answers you wanted from us and I wish you all a very good day. Talk to you soon on October 24 at the latest. Bye.

OPERATOR: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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Q3 2014 Michael Page International PLC Interim Management Statement Call - Final

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14 October 2014
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OPERATOR: Ladies and gentlemen, welcome to the PageGroup Q3 trading update call. My name is Seb and I will be the coordinator for your call today. I will now hand over to Kelvin Stagg, Chief Financial Officer, to begin today's call. Kelvin, please go ahead.

KELVIN STAGG, CFO, PAGEGROUP: Good morning and welcome to the PageGroup third quarter 2014 interim management statement conference call. This is Kelvin Stagg, Chief Financial Officer, and I have with me Steve Ingham, Chief Executive Officer of PageGroup.

Before we start the business of the call, I'd just like to cover some legal formalities. This conference call is being recorded and the recording may be accessed later on the Company website. If you are participating in the conference call now or listening to the recording of the conference call, you should be aware that the discussions may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. There are risk factors that can cause actual results to differ materially from those expressed in or implied by such statements.

PageGroup disclaims any intention or obligation to revise or update any forward-looking statements that may be made during this conference call, regardless of whether those statements are affected as a result of new information, future events or otherwise.

I will now hand over to Steve Ingham, Chief Executive Officer of PageGroup.

STEVE INGHAM, CEO, PAGEGROUP: Thank you, Kelvin. Today, I'll take you through the third quarter results, starting with a brief overview before reviewing each of the regions in more detail. I will then cover our comments made in the trading statement this morning regarding our expectations for the year before opening up for Q&A.

The headline result was positive, with the gross profit growth rate improving from 8.9% in quarter 2 to 11.6% in quarter 3 in constant currencies. There has been a strong performance across all the regions, each being at or close to double-digit growth compared to 2013.

The UK performed particularly well. We also saw a record combined performance for our large high potential market and individually from North America, Latin America and South East Asia.

While the Group trading performance grew strongly in constant currency, foreign exchange continued to impact our results at reported rates. This reduced our growth by 7 percentage points or GBP9 million to 4.7%. We experienced notable FX volatility in late September. While this had a limited impact on the Q3 results, it has impacted on our expectations for Q4.

Our ratio of permanent to temporary was 76 to 24. Permanent recruitment performed well, up 13%, and we're seeing good growth in our temporary business, especially in the UK, France and Germany.

During quarter 3, we added 165 new heads. This was an increase of 210 fee earners, balanced by a reduction of 45 in operational support staff. This represents an acceleration of our fee earner growth from 177 in the whole of the first half. This is due to a combination of hiring more fee earners, as well as an increase in staff retention as a result of a number of initiatives driven by our new Group HR function.

These fee earners went principally into the higher growth areas of the UK, Page Personnel France and the large high potential markets. Combined, these large high potential markets are at a record gross profit level and to grow these businesses, we need to add headcount continually.

In areas where we increased headcount, it does impact productivity in the short term. This is particularly true in our temporary businesses, where the time for a new consultant to be productive takes that much longer. Having made this significant investment in quarter 3, it is likely the rate of headcount increase will slow in quarter 4, particularly as we continue to monitor the uncertain macroeconomic outlook.

Our discipline mix remains stable, with greatest growth coming from our technical disciplines such as engineering, logistics, supply chain and property and construction. These disciplines were particularly strong in Asia and the US. Our sales and marketing disciplines performed well in the quarter, up 13%, helped by our performance in digital, where we have dedicated teams in many regions.

Looking at the regional mix, the foreign exchange impact is clear, moving the geographic proportions of the Group by gross profit. During the quarter, the Eurozone has seen a significant widening of the gap between reported and constant currency. This has lowered the EMEA proportion of the Group, while the UK has increased from 25% in quarter 2 to 27% in quarter 3. Year on year, 20 countries grew in excess of 10%.

Looking at the year-on-year growth rates, we've seen an improvement in EMEA, UK, Australasia and North America, but also a significant reduction in the growth rate in Asia from 25% to 17%. In addition, there has been a continuation of the slowing year-on-year growth rate, though still positive in Latin America, caused by the negative growth, now minus 10%, in Brazil.

Looking at each region, and starting with our largest, Europe Middle East and Africa, which now represents 37% of the Group.

Our largest market France performed well, growing 7% despite a difficult economic backdrop. This compares to a 3% growth rate in quarter 2. Germany saw a notable improvement, up to 15% from 7% in quarter 2.

In both markets it was the Page Personnel businesses which drove the growth, up 25% in Germany and up 15% in France year on year. This is largely a result of the significant headcount investment in both businesses earlier in the year.

Elsewhere Southern Europe continued to do very well, up 27%. Regional conflicts have taken their toll, with both Russia and the Middle East experiencing significant slowdowns.

In the UK, quarter 3 was a solid quarter across all disciplines, with HR, marketing, property and construction, procurement and supply chain, and finance and accounting all performing well.

Page Personnel outperformed Michael Page, up 25%. Regionally Page Personnel saw strongest growth in the Midlands, while for Michael Page, London and the South were the strongest performers.

As the market is generally improving, we have seen a small increase in pricing in both the temporary and permanent markets. While the gross profit growth rate typically moderates in Q4, given the recent trends we see good reason to be optimistic for 2015.

The Asia Pacific region, 21% of the Group, saw its growth rate slow in quarter 3 from 14% to 11%. This was impacted by Asia slowing from 25% in quarter 2 to 17% in quarter 3.

While Greater China performed well, up 25%, this was down significantly from the 37% growth seen in quarter 2. There was, however, good growth from our businesses in Southern and Eastern China, and in Hong Kong where we have a market-leading position.

South East Asia enjoyed a record quarter, up 22% with Malaysia in particular performing well.

Turning to Australasia where we returned to growth for the first time since 2012, Australia was up 0.3%, largely due to easier comparators, and supported by a strong performance from New Zealand.

And finally to the Americas representing 15% of the Group; North America enjoyed another record quarter, up 22% including a strong contribution from Canada where we opened our third office, Calgary.

In Latin America where we have a headcount of around 550, our largest business, Brazil, was down 10% as a result of the poor economic environment and the lead-up to the Presidential elections.

Outside of Brazil, the rest of Latin America, which comprises 41% of the region, grew 22% with particularly strong performances from Mexico and Colombia. Our new startup in Lima, Peru is performing well and to plan.

Turning to the Group balance sheet, we ended the quarter with GBP70 million of net cash. Since then we've paid an interim dividend of 3.42p per share, totaling GBP10.5 million.

Our rollout of the new Page Recruiting System has been completed in the US, and Page Personnel in the UK. Both of these exercises went well. We expect to complete the rollout to all the UK businesses by the end of the year, which would imply one-third of the Group by gross profit will be on the new system.

So in summary, we performed well in Q3 with positive gross profit growth across all our regions. This gave us the confidence to invest in headcount, particularly into the large high potential markets such as the US and Germany, and in high growth businesses such as the UK and Page Personnel France.

A lot of the new headcount will be focused on temporary recruitment, where the lead time to full productivity is longer; hence, to maintain current growth rates, we've accelerated our hiring.

However, we've also seen a slowdown in our high margin Asian region, and a growing-back lack of confidence in the outlook for Europe.

These factors, allied to the costs associated with our strong headcount investment, lead us to now expect operating profit modestly lower than consensus market expectations. This still represents year-on-year growth of over 20% in constant currencies.

I will now turn the call back to the operator for questions.

Questions and Answers

OPERATOR: (Operator Instructions). Tom Sykes, Deutsche Bank.

TOM SYKES, ANALYST, DEUTSCHE BANK RESEARCH: Three questions please, firstly just could you speak about the processes you go through to allocate the headcount increases. I know that you talk about the team by team increases, when it becomes profitable for a team to add an extra person but you are probably in a more coordinated basis increasing headcount now, so maybe if you could go through that, please?

On Page Personnel, could you maybe just say where you are in terms of spare capacity, and perhaps what your growth ambitions are for Page Personnel right now?

And then maybe could you just clarify what exactly you mean by moderately for this year, please?

STEVE INGHAM: Sure, well starting at the first, at the top, processes for allocation of headcount.

You're right, that is driven by people on the ground, they have clearly a far better idea of exactly how they're performing in a particular city, in a particular discipline. That said, of course, they can't actually make an offer to a new consultant without a Managing Director being involved in the final interview. And the Managing Director would also seek authority from the Executive Board that runs the Company, so that we can prioritize our headcount growth in the markets that the Executive Board feels confident about.

So ultimately we take guidance from those on the ground that are actually operating with clients and candidates in a particular city, in a particular discipline; but for them to actually make a hire and have somebody join their business, ultimately it comes down to the Executive Board.

We've tried to prioritize that allocation to what are high potential markets, we think, for the Group. There are five of them, we've highlighted them; they are China, South East Asia, Germany, the US and Latin America.

They're very big economies, they're very immature recruitment markets on the whole, and combined, not only are we performing at record levels, but we're also the market leader in those five markets combined. For us we've got to, to maintain growth, we have to hire new heads; there is no spare capacity.

On top of that, we have allocated a number of headcount to some of the faster growing markets. We grew 25% in Page Personnel in the UK. We grew 15% in Page Personnel France. And one of the high potential markets in Page Personnel in Germany, we also grew at 25%.

These are predominantly temporary recruitment businesses and as we've said, for us, we have to hire new consultants in advance of when they will be fully productive. It takes them time to get up to speed because of the way we charge a client when we place a temp.

And so, because these businesses are growing well and in anticipation they will continue to grow well into the New Year, we've hired them in the third quarter so that we can train them and prepare them so that they're starting to be productive in the first quarter of next year. So it's a logical plan.

Meanwhile, we're hiring into the permanent markets of the other high potential markets such as China and North America. To sustain the sort of level of growth in North America of 22%, we have to hire new heads. We're at a record level there. We have no choice, no spare capacity.

Second question on Page Personnel, where does spare capacity exist? The UK, France and Germany are all, in Page Personnel, performing at record levels. Therefore there is very limited, apart from the heads that we recruited in Q1 and Q2, there is very little spare capacity. And so again, with the lead time I've already talked about, we have to start hiring now if we want to maintain the sorts of growth rates that we are achieving at the moment; and they have been improving.

That said, clearly, particularly in Europe, there is a cloud hanging over, according to the press and clearly a lot of data that's been coming out recently and we are mindful of that. So we remain cautious, and we're very carefully watching the data that's coming out and the news and so on.

But as yet, in terms of the activity levels, and as you know our leading KPIs, typically a job count, interview count and so on, we're not seeing anything in our business that confirms that the data that's coming out in the press is impacting our business levels. But as we all know, our visibility is short and that could change quickly. So we are mindful of it.

We have accelerated the headcount in the third quarter. In fact, the number of fee earners that we hired in the third quarter, of 210, was roughly three times the number of fee earners that we hired in the second quarter.

We don't anticipate that happening in the fourth quarter. It was just to prepare ourselves for 2015.

The third question was around modestly. Well, in the world of IR, I'm told that modest is around 4% to 5%. It is a combination of Asia slowing to what we would regard as good growth still. We've come off 25% growth in Asia to 17%. And I remind you, Asia is 14% of the Group, so that's, while still fantastic growth rates, it is, still, clearly going to impact our gross profit.

Secondly, there remains an ongoing FX impact. Thirdly, we are concerned about the outlook and the press that we read.

And fourthly, there is the cost associated with hiring these -- this increase in headcount. So I think I said modestly; moderately. So we're talking about 4% to 5% impact on our number. That said, it still represents, in constant currency, a growth rate in excess of 20% in constant currencies, which, if I'd been asked at the beginning of the year I probably would have taken for the full year.

TOM SYKES: Could I just very quickly ask -- thank you for that, is, what level -- if things slow further, or if things were to slow, first of all in your gross profit growth, what level of gross profit growth would you have to slow down to in order for you to actually reduce headcount? Would it actually have to go negative, do you think?

STEVE INGHAM: Well, we would take -- the answer to that question, we would take market by market. Clearly at the moment, with conflicts existing on our -- the borders of Russia, we're not increasing our headcount at all and if we've got staff turnover, we're using that to reduce our headcount.

In a sales-led business like recruitment, there is always a significant amount of staff turnover and that does allow us to flex our headcount very, very quickly. To be honest, we don't reduce our headcount on headlines in the newspapers. We do reduce our headcount when we start seeing our own KPIs come down.

And so, at the moment, we're still adding to our headcount, very selectively, in markets that we feel most confident and where we've got the least spare capacity and we think that's the right thing to do.

At the moment our growth rate, and we fortunately announce our results after our peers, our growth rate is in excess of our nearest peer and therefore we've got strong growth at the moment. Therefore we think it's the right thing to invest in that growth in anticipation for 2015.

We've seen a steady improvement over the last few quarters and at the moment our KPIs don't point to anything changing as we go in to the fourth quarter, with the limited visibility we have.

TOM SYKES: Okay, thanks very much, Steve.

OPERATOR: Chris Gallagher, JPMorgan.

CHRIS GALLAGHER, ANALYST, JPMORGAN: Just a quick question on China. Could you maybe give a bit of color as what's happened there, what you've seen?

STEVE INGHAM: Well, first of all, just to remind everyone, China is a very immature recruitment market and today we have an enviable market-leading position in China and have expanded very quickly. But because it is a very immature recruitment market, things can change very quickly and we're learning all the time about the Chinese market. I think it's fair to say many international companies that have gone to China in many different industries have found China challenging for different reasons.

We were in negative growth in the first quarter of this year, to remind you. We went from a small amount of negative growth in the first quarter to plus 37% in the second quarter. We're now at plus 25%.

Can I fully explain exactly what happened over those three quarters? It's difficult. I think it's fair to say the headline news around China and the economics have probably come off a bit and are a little bit tougher. That said, our job flow and the KPIs in China still remain strong.

It's fair to say that, since 2009, our headcount has grown from about 70 in 2009, at its lowest point, to today over 400. So we've seen rapid growth. We've got a very, very strong senior management which are largely driven by sending experienced people from elsewhere into China.

But clearly the Chinese headcount that we've grown very rapidly over the last five years does have a limited amount of experience and years of experience under their belt. So, small challenges can be bigger challenges, if you like, to less experienced people. So things can change quite quickly.

We had very strong performances in Southern China, in Eastern China. We're off a little bit in Northern China; good performance in Hong Kong. We don't particularly see it as a trend. It is what it is, it can change quite quickly, but going into the fourth quarter, our KPIs remain strong and there's no reason why things won't continue at the sort of level we're at.

We're fortunate in that China is now 59% of the 14% that Asia represents of the Group. It's a good platform for us to build on and we expect good growth going forward.

CHRIS GALLAGHER: Okay, that's very helpful. I have just one more question just on Europe. So you're not actually seeing anything necessarily in the business or your KPIs [yet], it's more just in terms of the headlines, the news [bulletins] leading you to be cautious?

STEVE INGHAM: We're seeing nothing at the moment in our own KPIs at all to reflect the news that we're getting in terms of the macro data around Europe. Clearly the clouds have got darker over the last few weeks, it's fair to say, and the markets reflect that. But in terms of our activity levels, KPI and so on, no. There is nothing to reflect it.

Things can change quickly and we're well aware of that and we've a lot of experience on the ground in Europe with some very experienced managing directors and very established businesses. But at the moment, the caution is reflected in where we're seeing the growth, in that it still remains strong on temp, particularly in markets where employment legislation is very strong, like France. So you see a balance between 15% growth in Page Personnel in France versus negative growth in the Michael Page brand, overall giving us growth of 7%.

But, in the last three months, just to remind ourselves, it's gone from 3% growth in France to 7%. In Germany it's gone from 7% to 15%. In Southern Europe we've gone up to 27% growth. So, things have improved and at the moment the KPIs still point that way, but we are naturally cautious. You can't avoid the headlines at the moment and the analysts' notes and so forth, they do seem quite negative and we're mindful of that, so we're watching it very, very carefully.

CHRIS GALLAGHER: Okay, thank you.

OPERATOR: Laurent Brunelle, Exane BNP Paribas.

LAURENT BRUNELLE, ANALYST, EXANEBNP PARIBAS: Quick question, if I may. First, at this stage of the cycle, given the little spare capacity you have, what kind of drop-through do you expect, please?

Second, regarding the UK, do you see -- obviously visibility is limited but do you see any slowdown, possible slowdown, attributable to the next year election?

And lastly, can you maybe comment about what to expect in Brazil? Thank you.

STEVE INGHAM: Okay, in terms of running through those, I'll go in reverse actually, while it's on my mind, in terms of Brazil.

Look, clearly the third quarter was disrupted by a number of things. We were finishing off the World Cup in July. It definitely has more economic challenges today than it's had for some time and finally, on the, I think it was October 4, we had the first round of the presidential elections. And clearly that tends to be, particularly in Latin America, quite disruptive.

We're off 10%. And we are a very, very big business, as you'll be aware. It's 59% of Latin America and we have 540 people, to be precise, in Latin America. So you can see the scale of our business there.

So being off 10% is significantly down, but it's not disastrously down. And we're still relatively, in terms of your question, looking forward, relatively optimistic. But when the presidential elections have been finished, after the various rounds it'll have to go through, we'd like to think things will settle down.

This time last year we had a weaker Q4, so comparators will be easier, going into Q4 for us. And we'd like to think that with the presidential elections behind us going into next year things will look a bit more positive but, again, our vision, our visibility rather, is very short anywhere in the world, let alone Brazil.

I think the interesting thing for us is that now an ever-growing, growing at 22% today, 41% of Latin America is looking very strong, and we've been delighted with the performance of our next biggest market in Latin American which is Mexico. We have about 115 people in Mexico, which is very significantly bigger than any other competitor we have. Last year we opened our second office outside of Mexico in Monterrey, it's going incredibly well.

Colombia is doing incredibly well for us. Chile is still strong, Argentina okay; and like I say, Peru, I think, is a very good one for the future to watch and there's no reason why it couldn't reflect similar results to Colombia. Even with a tougher Brazil, and we hope it won't be, our performance ex Brazil in Latin America is strong, and hopefully will remain strong and can counterbalance to become a more diverse business in Latin America.

The second question was around the UK; at the moment we're not seeing any slowdown. We've seen a steady improvement; roughly speaking, each quarter, we seem to improve our growth rate by about 3 percentage points. Now I've been working in the UK recruitment market for 28 years. In my experience it's difficult going into the fourth quarter to maintain the same level of growth; we typically don't. I'm not necessarily anticipating in the fourth quarter of this year we'll improve the growth rate by 3 percentage points, probably not, it will probably be slightly lower, 11%/12% if I was guessing, or guestimating.

Going into next year and our elections, Prime Minister elections, in my experience of previous elections they have a limited impact in terms of whether a 25 to 35-year old professional moves jobs or not. We don't budget for a big impact of the elections, and we don't foresee that being a problem. We foresee and watch the macroeconomic data as being a far bigger influence.

In terms of the first question, in terms of drop-through. Typically -- and it depends on how fast we're growing obviously, and therefore how fast we're having to invest and whether it's into permanent or temporary. Typically we'd expect about 50% to drop through in terms of profit. Does that answer your questions, Laurent?

LAURENT BRUNELLE: Yes, definitely. Yes, thank you very much.

OPERATOR: Hans Pluijgers, Kepler Cheuvreux.

HANS PLUIJGERS, ANALYST, KEPLER CHEUVREUX: Two questions from my side. First of all a little bit looking at the end of the quarter exit rate. Could you give some flavor on what was happening more towards the end of the quarter? Your KPIs were not indicating any slowdown, but do you see anything happening by segment perm or temp? Could you give us some feeling what you see across the board?

Secondly on headcount, you've already said you don't expect to increase headcount in line with what you've seen in Q3. Could you give some feeling what your KPIs currently are pointing at with respect to headcount hiring in Q4, especially as normally recruitment takes a few weeks to months, so likely you will already have good visibility on what you were planning for in Q4?

STEVE INGHAM: In terms of exit rate we don't start reporting monthly, because we think quarterly is frequently enough. But just to say, September is always a strong month for us, because it's the third month in the quarter, we're driven by quarterly results, our consultants are paid quarterly bonuses. Of course September follows a quiet period across Europe, the UK, and other parts of the world as well. It's the first significant month after the summer break.

So we would always expect September to be significantly above July and August, and it was. That was great to see, and so our exit rate was absolutely fine. As I've said to a number of other questions in terms of KPIs, we're not seeing any of our KPIs, temp or perm, reflect the data that's coming out at the moment in the press, and so on.

The KPIs we look at, the first one, the leading KPI, is our job count, and our candidate count. At the moment they both remain healthy around the world with the exceptions of markets that I've already identified, the Russias, the Middle East, and so on, that are clearly impacted for other reasons.

At the moment, whilst we're mindful the macroeconomic data is worrying, and clearly causes us anxiety like it does everyone else, at the moment our KPIs reflect a steady improvement, which is what we've seen in the first three quarters of this year.

In terms of headcount going into quarter 4, we would anticipate our headcount growth would be more in line with quarter 1 and quarter 2 of this year. The significant step-up in Q3 was our investment of headcount, particularly into the temporary businesses, where, like I say, to get up to full productivity it does take significantly longer than when you're putting them into the permanent businesses.

When we talk about much of our high potential market, the Latin Americas, excluding Brazil at the moment, but the Chinas, the South East Asia, these businesses are almost 100% perm. Therefore if they continue to grow at the rates that they are growing at the moment, then clearly we'll have to add headcount in the fourth quarter, but they will be going into permanent recruitment. So the lead to productivity is that much quicker.

If I was to sit here guessing now, assuming like I say limited visibility, and assuming, therefore, we don't see any change in our KPIs, and things continue in the direction that they're going, I would anticipate headcount growth in the fourth quarter similar to Q1 and Q2.

HANS PLUIJGERS: One follow-up; you made quite a significant step in your support ratio. What do you see there for the short term, do you expect further clear improvement there, what do you see?

STEVE INGHAM: A gradual improvement. We are trying to align ourselves globally so that we're consistent in everything that we do from an operational perspective, operational support perspective. I would see a very, very gradual improvement as we end this year and into next year.

Our predominant focus is on hiring fee earners, not operational support people, so as our fee earner headcount comes up -- goes up, that will impact the ratio. I don't see a significant change, but you're right, it has been a positive move over the last 18 months.

HANS PLUIJGERS: Good, thank you.

OPERATOR: Toby Reeks, Morgan Stanley.

TOBY REEKS, ANALYST, MORGAN STANLEY: Most of mine have been answered actually, just one. Could you let us know what staff turnover levels are running at at the moment?

STEVE INGHAM: We don't disclose exactly what they are for competitive reasons, but they're down by about 3 percentage points in the third quarter.

Like I just said to Hans, we have been trying to become more consistent in the way that we handle operational support around the world. One such move was obviously in the area of HR; we hired our first global HR director about a year and a half ago. She has been coordinating our HR activities around the world, so we can take best practice in each market. Clearly we're in very, very different markets around the world. Some are far more competitive than others and we learn in each of those markets, and we then put the best practice into play.

We've done a number of things in terms of initiatives around diversity, and how we hire people, and how we incentivize, and how we motivate them, how we give them clarity on their career developments and the sort of prospects they have for promotions and so on. That has impacted our retention rate. In the third quarter, like I say, we've seen it come down by roughly 3 percentage points which doesn't sound like a lot, but 3% on 5,500 people is significant, and a very positive step in the right direction that saves, that saves us -- sorry?

TOBY REEKS: Is it fair to say that that -- the turnover level has been coming down for the last couple of years steadily?

STEVE INGHAM: No, I wouldn't say that because actually there is a sort of mix effect of where we operate in the world. There's no doubt about it in some of the newer, large, high potential markets such as China, such as the US, you face different challenges than you do in an established market like the UK. Actually staff turnover in those markets will typically be higher than they would be in an established market like the UK where the recruitment profession and industry is well known, and well understood.

We have to accept that if we've got fast-growing businesses like China, which clearly now represent roughly speaking 8% of the Group, and the US, slightly below that but an increasing proportion of the Group, and they've got a higher staff turnover, it will affect the overall number. But we are gradually, with the odd exception, gradually moving it down everywhere we can.

TOBY REEKS: Okay, so in the more developed, lower -- more developed markets, turnover has been decreasing, it's just in the newer, faster growth markets that you're seeing --

STEVE INGHAM: Typically. Obviously, Toby, it's also impacted by how tough recruitment is. In a very established market like the UK in 2009, I think our staff turnover did go up quite a bit, particularly in the recruitment sector of financial services, because it became a tougher job and therefore invariably people will vote with their feet and move out of the industry.

But yes, if you assumed similar levels of market activity certain less mature markets will have a higher staff turnover, you're right.

TOBY REEKS: Okay. Thank you very much.

OPERATOR: Paul Checketts, Barclays.

PAUL CHECKETTS, ANALYST, BARCLAYS: I just wanted to go over the downgrade on profit again, just to make it clear, if possible, because we've got better constant currency growth in the quarter, better than previous quarter, better than consensus. You've told us your KPIs are holding up well. So it sounds like consensus for gross profit for the full year is fine but we're pulling down operating profit. Headcount is obviously a component of that but it feels like we had a very positive Q2 and must have known what was going in.

Can you just help me understand it all? Is it that Page Personnel is lower margin and it's negative mix effect? Could you just spend -- go over it once more please, Steve.

STEVE INGHAM: No problem at all. Well, just in terms of gross profit, you're right. We are pretty comfortable that we're there or thereabouts in the gross profit figure for consensus.

To be fair, probably until we saw Asia coming off, and it's come off significantly, although frankly it's come off to a figure that I think a lot of our competitors would still be very happy with, but it has come off. And you're talking about 14% of the Group, going from 25% to 17%. And I think if we carried on at 25% growth, we would have probably beaten consensus on gross profit.

So, in effect, that has taken -- clearly 14% coming down, drifting down by that sort of level of growth rate, 8%, you can work it out. That's impacted the gross profit figure and yet we're still probably in line with consensus.

Now, going into -- seeing our numbers as they develop through the third quarter, particularly, as I mentioned to a previous question, September being by far the biggest month of the three, we've seen Page Personnel perform particularly strongly.

Our investment earlier in the year in Germany means that our Page Personnel business is now growing at 25%. Our Page Personnel business in France is growing at 15% and in the UK over 25%. That's a step-up, particularly in the UK and Germany. And so we made the decision during the quarter to add headcount.

Now, you can make that decision in the middle of August and there's not a lot you can do about it in France because clearly it's a holiday period and so on. So a lot of that headcount will have come into the business as we were interviewing during August and so on and making offers and people have started in September.

So it was a -- we would have hired fee earners clearly on improving growth rate anyway in the third quarter, but we've added to that because of the success we've seen, particularly in those Page Personnel businesses, particularly because the lead time for consultants to become fully productive is that much longer. So I think that's significant.

In terms of your final question around Page Personnel margins, of course in a business like Germany where Page Personnel is a relatively small proportion of what we do in Germany -- as you know we're the market leader in permanent recruitment in Germany and I don't think anyone would dispute that, but in the temporary or contract market, we are relatively small and we've highlighted this over the last two years.

Our results came down from 40% growth three years ago where, clearly, our perm business was doing incredibly well. And when things came off in Germany, we felt it and probably felt it more than we should have done because we hadn't invested in a temporary business there.

That's something we've been investing very heavily in. The results are starting to come through as we grow at 25% in Page Personnel. And it's fair to say, with our heavy investment, our margins in Page Personnel are lower than Michael Page in Germany. Germany, of course, for us is a high margin market because salaries and fee rates are very strong. That's a specific comment relating to Germany.

In France and in the UK, our conversion rates for Page Personnel are the same as Michael Page or, in fact, in France slightly higher. That's more of a reflection in France that they've got growth in Page Personnel and negative growth in Michael Page. But there is no real difference between the conversion rates of those two more mature businesses.

PAUL CHECKETTS: Great. Thanks.

OPERATOR: Angus Staines, UBS.

ANGUS STAINES, ANALYST, UBS: I was just wondering if you could give us an indication of how significant Page Personnel is for the Group and maybe even a split between UK, France and Germany for Page Personnel. Thanks.

STEVE INGHAM: You were very faint there but I will try and answer that, Angus. I think you mentioned the UK and France, what proportion is Page Personnel.

KELVIN STAGG: Germany.

STEVE INGHAM: In Germany it's probably about 20%. In France, Page Personnel is bigger than one-half of the business and, in fact, I would anticipate it probably in 2015 being twice as big in fee earner terms as our Michael Page business in France. And in the UK, it represents just over 20% of the UK.

ANGUS STAINES: Perfect. Thanks.

OPERATOR: Matthew Lloyd, HSBC.

MATTHEW LLOYD, ANALYST, HSBC: Just one question, really. Have -- in two parts, because I'm an analyst. One, could you give us a feel for what sectors your client sectors are hiring and whether you're seeing any change in that pattern?

STEVE INGHAM: Well, to be honest, with -- it depends where you are obviously in the world, but we've had a strong performance in the quarter from nearly every sector. But I have to say if I had to pick one that's done particularly well, probably property and construction around the world.

It's had a very strong performance here in the UK. We're not renowned for it but we've got a small/medium-sized business that's expanding very quickly. Where we do it elsewhere in the world, it's done particularly well as well.

What it means is and, as you know, we're focused by specialist discipline, it means that most of our technical disciplines have done very well. So we've found in manufacturing we're doing very well in engineering, doing very well in supply chain procurement, logistics. There are separate businesses for us in most of the geographies in which we operate. But all things relating to property and construction as well we're doing very well, both on the facilities side and all the technical jobs, such as surveying and so on.

Outside of that, clearly with the emergence of e-commerce and digital, because we're very strong in marketing around the world, we've found that our digital business as well has been performing very well.

In terms of have we seen these trends change? No, not really. The one market we used to talk a lot about, because it represented, I think, about 20% of the Group some 15 years ago, was financial services. Today it represents about 4% of the Group. In the UK we've seen very little change. Very small pick-up maybe in Q3 but I wouldn't say that was part of an enduring trend. Elsewhere in financial services, New York very strong and Asia pretty good. But in the UK, no change.

But overall, I wouldn't say there's been a significant change in the last quarter in terms of the direction of different sectors, no.

MATTHEW LLOYD: Okay. Thank you very much.

OPERATOR: (Operator Instructions). We currently have no further questions.

STEVE INGHAM: Okay. Thank you, everyone, for joining the call today. We'll next be updating you on January 13, 2015 when we'll issue our fourth quarter trading update. Have a good day.

OPERATOR: Thank you for joining today's call, ladies and gentlemen. If you would like to hear any part of the conference again, a recording will be made available shortly. You may now disconnect your lines.

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