**Empresaria** Group plc

# An international specialist staffing group

Summary Report 2016

# Empresaria is an international specialist staffing group, following a multi-branded business model to address global talent and skills shortages.

The Group's strategy is to develop leading brands and to be diversified and balanced across geographies and sectors. Our spread of operations minimises the dependence on any single market, so reducing the impact from market fluctuations and other external factors. Each brand is a specialist in their niche market, enabling them to understand the needs of clients and candidates alike, allowing them to attack the market vertically rather than horizontally.

Our vision is to be a leading, international, specialist staffing group delivering a quality service to our customers and candidates and creating a sustainable business for the long-term benefit of shareholders.

More information on **Strategy** on **pages 10 and 11**

**Strategic Report**


| | |
|---|---|
| At a glance | 02 |
| Chairman's statement | 04 |
| Market drivers | 06 |
| Multi-branded business model | 08 |
| Strategic framework | 10 |
| Strategy in action | 12 |
| Chief Executive's review | 16 |
| Finance review | 22 |
| Key Performance Indicators | 26 |
| Risks and uncertainties | 28 |


**Governance**


| | |
|---|---|
| Board of Directors | 32 |


**Financial Statements**


| | |
|---|---|
| Consolidated income statement | 34 |
| Consolidated statement of comprehensive income | 35 |
| Consolidated balance sheet | 36 |
| Consolidated statement of changes in equity | 37 |
| Consolidated cash flow statement | 38 |
| Basis of preparation and general information | 39 |
| Officers and professional advisers | 40 |

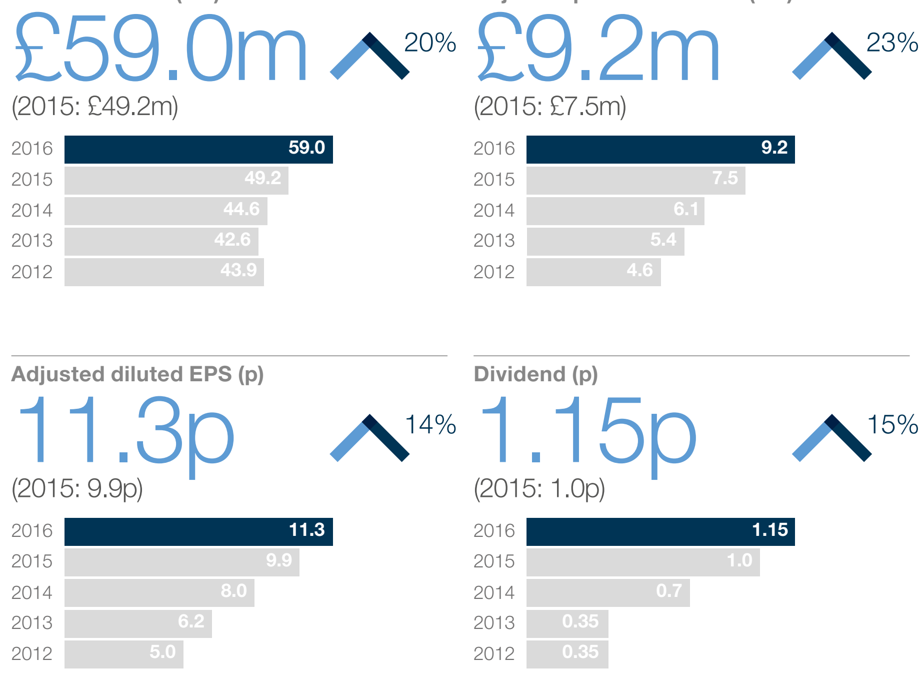
www.empresaria.com

# HIGHLIGHTS

## Operational highlights

- Revenue of £270.4m up 44% on prior year
- Net fee income of £59.0m up 20% on prior year
- Fourteen consecutive quarters of net fee income growth
- Conversion ratio increases to 16.6% from 16.3%
- Operating profit up 12% to £8.5m
- Profit before tax up 11% to £7.9m
- Diluted earnings per share unchanged at 9.3p, after increased amortisation charges. Adjusted earnings per share up 14% to 11.3p
- Five consecutive years of double-digit % growth in adjusted earnings per share
- Strong profit growth in German business, IT sector in Japan and Executive search in South East Asia
- Investments made in July 2016 in Rishworth Aviation and in October 2016 in ConSol Partners
- Net debt increased by 44% to £10.5m to help fund new investments
- Plans to launch Executive search brand in Vietnam in 2017
- Successful integration of Pharmaceutical Strategies investment
- 17% increase in average number of staff
- Proposed dividend up 15% to 1.15p

## Financial highlights




### Cautionary statement

The Chairman's statement and Strategic report ('the reviews') have been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. The reviews should not be relied on by any party or for any other purpose.

The reviews contain certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

# What we do

The Group operates in 19 countries across four geographic regions and across seven key sectors, with each brand an expert in their niche market. We focus on growth markets, whether this is country or sector based.

## Key sectors

**Technical & Industrial**

Net fee income:
£22.9m
(2015: £21.5m)

**IT, Digital & Design**

Net fee income:
£11.9m
(2015: £9.2m)

**Professional Services**

Net fee income:
£5.8m
(2015: £6.2m)

**Retail**

Net fee income:
£3.9m
(2015: £3.3m)

**Executive Search**

Net fee income:
£3.9m
(2015: £3.1m)

**Healthcare**

Net fee income:
£3.4m
(2015: £1.7m)

**Aviation Services**

Net fee income:
£2.5m
(2015: n/a)

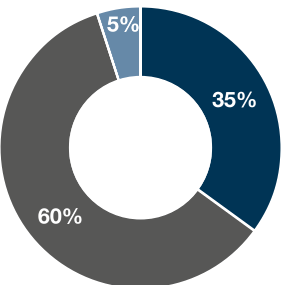
**Other**

Net fee income:
£4.7m
(2015: £4.2m)

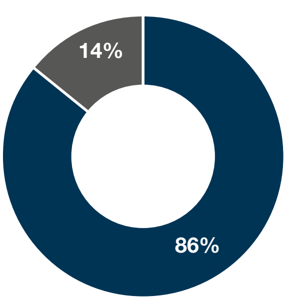
## Service lines

The Group has three main service lines, temporary and contract recruitment, permanent recruitment and offshore recruitment services. Overall we aim for a bias in temporary recruitment, which is generally more stable throughout the economic cycle, but this also depends on the maturity of the staffing sector in each country, with less mature markets focused purely on permanent sales.

We target professional and specialist job levels where our brands can offer a higher value added service to clients.




Permanent
Temporary and contract
Offshore recruitment services




Professional & Specialist
General

# Regions

## United Kingdom

**Net fee income:**

£19.0m

(2015: £18.4m)

**Brands**

LMA, Mansion House, FastTrack, McCall, Greycoat, Become, Ball and Hoolahan, Teamsales, ConSol Partners

See page 18

## Continental Europe

**Net fee income:**

£16.8m

(2015: £14.5m)

**Brands**

Headway, Mediradix

**Countries**

Germany
Austria
Finland

See page 19

## Asia Pacific

**Net fee income:**

£18.6m

(2015: £14.2m)

**Brands**

Skillhouse, FINES, Become, Monroe Consulting, Learning Resources, IMS, BW&P, McCall, LMA, Greycoat, Rishworth Aviation

**Countries**

Japan
Indonesia
India
Australia
UAE
Thailand
Singapore
China
Hong Kong
Philippines
Malaysia
New Zealand

See page 20

## Americas

**Net fee income:**

£4.6m

(2015: £2.1m)

**Brands**

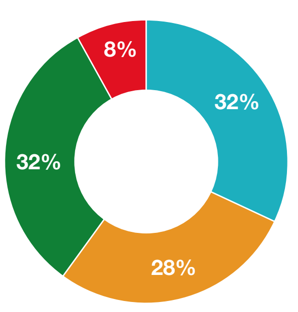
Alternattiva, Monroe Consulting, Pharmaceutical Strategies, ConSol Partners

**Countries**

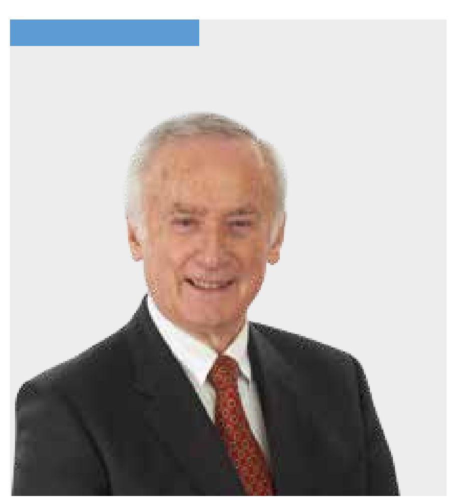
USA
Chile
Mexico

See page 21

**How our net fee income is split between our four regions**



# Further year of progress



The Group has delivered another year of strong growth in profit and adjusted earnings per share

**The Group has delivered another year of strong growth in profit and adjusted earnings per share. We have again demonstrated the strength of our multi-branded business model, with a strategy to be diversified by geography and sector and to develop leading brands with sector expertise. As we enter 2017, the Group continues to strengthen its position, as our focus on delivering against our strategy is reflected in our trading performance and resilience to uncertain market conditions.**

- Revenue grew by 44%, primarily in the Technical & Industrial sector and from the investments made in 2016. Additionally, our business mix has changed following our decision in the last few years to reduce our exposure to low margin, high volume business in the UK Technical & Industrial sector
- Net fee income grew by 20% with profit before tax up 11% (23% on an adjusted basis). We are pleased to report fourteen consecutive quarters of year-on-year growth in net fee income
- Share of net fee income from Temporary recruitment is up to 60% (2015: 55%), continuing our focus to deliver a higher proportion of our income from contracting, which is generally more predictable than permanent recruitment
- A balanced and diversified spread of operations, with 68% of net fee income from outside the UK (2015: 63%). We generate 72% of our net fee income from the four largest staffing markets in the world (USA, Japan, UK and Germany) but also 28% from high growth markets including South East Asia, China, India and Australia
- We have invested in two sectors with exciting long-term growth prospects through our investments in Rishworth Aviation (Aviation sector) and ConSol Partners (IT, Digital & Design sector). These transactions completed three important investments in a 12-month period to October 2016, starting with Pharmaceutical Strategies in October 2015, adding strong brands to the Group that have good growth potential in the years to come

### Performance overview

| Trading summary £m | 2016 | 2015 | % change | % change constant currency** |
|---|---|---|---|---|
| Revenue | **270.4** | 187.3 | 44% | 33% |
| Net fee income | **59.0** | 49.2 | 20% | 10% |
| Operating profit | **8.5** | 7.6 | 12% | 3% |
| Adjusted operating profit* | **9.8** | 8.0 | 23% | 11% |
| Profit before tax | **7.9** | 7.1 | 11% | 0% |
| Adjusted profit before tax* | **9.2** | 7.5 | 23% | 11% |

* Adjusted to exclude amortisation of intangible assets, exceptional items, gain or loss on disposal of business and fair value charges on acquisition of non-controlling interests

** The constant currency movement is calculated by translating the 2015 results at the 2016 exchange rates

Group revenue of £270.4m was up 44% on the prior year of £187.3m, with a 50% growth in Temporary revenue and 7% growth in Permanent revenue. The growth in net fee income was 20%, with a reduced Temporary margin of 14.5% (2015: 16.7%). This is largely due to Rishworth Aviation having a lower margin than the rest of the Group at 6%, although this margin is earned over a long period as their temporary contracts typically last between three and five years. Also, in Germany there was a reduced margin from changes in the client mix and tariffs.

We continued to see an improvement in our conversion ratio, for the fifth year in a row, increasing from 16.3% to 16.6% with costs controlled despite further investments in the business. Operating profit grew 12% to £8.5m (2015: £7.6m), after a £0.7m increase in amortisation charges to £1.1m. With interest costs higher due to the debt taken on to help fund the investments, profit before tax growth was 11% to £7.9m (2015: £7.1m). On an adjusted basis, excluding amortisation, exceptional items and fair value charges on the acquisition of non-controlling interests, both operating profit and profit before tax grew 23% over the prior year.

Diluted earnings per share was unchanged at 9.3p, again impacted by higher amortisation costs. On an adjusted basis it grew by 14% to 11.3p, delivering the fifth year in a row of double-digit growth.

The results this year have been impacted by currency movements, especially in the second half of the year. There was a small negative impact on the trading results but overall it has been positive for the Group, with a benefit from the translation of overseas profits into Sterling. On a constant currency basis revenue growth was 33%, net fee income was up 10% and adjusted profit before tax was up 11%.

After seeing our total debt level reduce through 2014 and 2015, this year it increased to £10.5m (2015: £7.3m) as we took the decision to fund our investments in the year by using operating cash flows and new bank debt. We entered into a five-year revolving credit facility with HSBC Bank plc on 30 June 2016. Interest rates are at low levels and are generally expected to remain low in the short term. This access to low cost debt with our long-term banking partner provided the best option to finance the investments in 2016. Our underlying philosophy remains to fund investments through equity or operating cash flows and to use debt for working capital funding. We continue to target a ‘debt to debtors’ ratio of no more than 25%. We measure this by excluding the cash held by Rishworth Aviation for pilot bonds, which ultimately is repayable to pilots at the end of their contracts, and at year end this ratio was 38% (2015: 23%) (see note 18 for further details). We expect to reduce this to 25% by the end of 2018, in line with our five-year plan.

## Investments

We follow an Invest and Develop strategy, with a focus on investing in our existing brands, to help develop them to build long-term sustainable profit streams. To complement this, we also look for external investment opportunities to accelerate the growth of the Group and increase our presence in sectors where we feel we are under-represented.

In line with this strategy, in 2016 we made two significant investments. In July 2016 we invested in Rishworth Aviation, a pilot leasing staffing business operating from offices in New Zealand and Sweden, servicing clients throughout Asia Pacific, UK, Continental Europe and Africa. Rishworth provides pilots on a contracting basis and is already diversified geographically. Air travel is predicted to increase with high growth rates over the mid term, especially in the emerging markets in Asia and Africa where Rishworth has a good presence, and we see good prospects for the business over the medium and long term.

In October 2016 we invested in ConSol Partners, which operates in the IT staffing sector, servicing the high growth areas of Communications & Mobile, Cloud Technologies and the Digital supply chain. They have offices in the UK and USA, with the UK team primarily servicing clients across the UK and Continental Europe and the USA team focused on its domestic market. This investment strengthens the Group’s presence in an important sector, which is exhibiting strong growth trends and has excellent potential.

## People

A key part of our business model is subsidiary management equity, aligning key management and Empresaria shareholder interests through brand management holding shares in their operating companies. This approach helps Empresaria to attract and retain the best people. At the end of the year we had 57 management shareholders, owning shares in different Group companies, up from 42 last year.

The Group has a dedicated Board and we are working hard to deliver growth, manage risk and improve our long-term financial performance, to generate higher shareholder returns. The Board is extremely experienced, with over 100 years of combined staffing industry experience.

The success of the Group comes from the hard work and commitment of our staff and the Board would like to thank every individual for their contribution to the business.

## Governance

We have an established governance system in place to deliver on our vision. The Group follows high standards of corporate governance which we believe is a core requirement for a successful business operating a decentralised model across different regions and brands. There is a strong culture of financial control in the Group, with clear policies covering corporate conduct and governance. The Board develops the Group’s corporate governance arrangements with reference to the UK Corporate Governance Code.

The values and culture of the Group, which are based on shared ownership and true operational autonomy for brand managers, are very important to the Board and key to our long-term growth prospects. We focus our investments towards people that share these values.

## Dividend

The Board has reviewed the dividend in the light of the positive trading result and overall financial position. In line with our progressive dividend policy, for the year ended 31 December 2016 the Board has proposed a final dividend of 1.15p per share (2015: 1.0p per share) which, if approved by shareholders at the Annual General Meeting, will be paid on 31 May 2017 to shareholders on the register on 5 May 2017.

## Outlook

The Group’s strategy has delivered strong profit and adjusted earnings per share growth. We are confident that 2017 will be another year of profit growth with the Group benefiting from the potential within its existing brands and also the investments made in 2016 contributing for a full year.

Our diversification by geography and sector helps to mitigate against difficult markets and as such we continue to see exciting opportunities to develop our Group, deliver increased profits and so enhance shareholder value. We look forward to the year ahead with confidence.

**Tony Martin**
Chairman
21 March 2017

# Market drivers shaping our industry

## Macroeconomic drivers

- Economic growth
- Market size and specialism
- Global markets

**Description**

Staffing is driven by confidence, clients having the confidence to hire and invest and candidates having the confidence to move job. Confidence builds from good economic conditions, with growing economies creating new roles and candidates moving between existing roles. This dual impact means staffing markets are generally expected to grow at higher rates than country GDP.

The size of a market illustrates the existing opportunity for staffing companies and the level of specialism in the market, with larger markets having a greater degree of specialism.

The world economy is increasingly inter-connected with businesses operating in global markets across international boundaries. The labour markets are reacting to this with people becoming more mobile and working outside their country of birth.

## Demographics

- Talent shortages
- Population growth and the rise of the middle classes in emerging markets
- Urbanisation

Talent shortages exist in certain sectors; making it difficult for clients to find suitable staff, as there are insufficient workers with the necessary skills to meet demand. Clients have a number of routes to find candidates themselves, but where there is a scarcity of talent a staffing agency is invaluable to help with difficult to find candidates. There is an ageing population in developed economies which is further exacerbating this skills shortage. In some sectors there is an expected reduction in the number of low skilled jobs in the future due to advances in technology and automation making these jobs obsolete. Conversely, new roles are being created that did not exist a few years ago and there are very few people available with experience in these areas.

There is a growing divide between the qualifications and skills of workers and the evolving demands of the labour market.

The population size in emerging markets, and the trend for growth in the number of middle class and education levels, points to long-term growth prospects for their staffing markets as skills improve and more people require work.

There is also an ongoing trend for urbanisation, leading to a concentration of workers in the key economic centres, especially in emerging markets. The concentration of workers to the largest cities means these cities are the main drivers of economic growth.

## Regulations and technology

- Market regulations
- Technology advances/ disruptive business models

The level of regulation in a market indicates how sophisticated it is and can be a key driver of market growth, with well-regulated markets encouraging temporary employment by protecting the rights of temporary workers and ensuring the right to equal pay and conditions. This is illustrated by the temporary penetration rate, which represents the number of agency workers in a country as a percentage of the total working population.

With the rise of new business models and growth of workers in the gig economy, regulations are being reviewed and amended to deal with taxation of income and profits.

In established staffing markets we see an increased use of Vendor Management Systems ('VMS') and Managed Service Providers ('MSP') where software solutions or external advisers act as the mechanism for providing staffing services to clients. This reduces the interaction, sometimes completely, between the end client and staffing agency.

Also, advances in technology are helping the development of new business models for the industry that could change the way businesses find and hire talent in the future. Some of these models are helpful to the staffing agency and some would look to bypass the agency. With the supply and demand for job markets becoming increasingly digitalised it can be difficult to sift through the sheer volume of data online to find the best match. This is where a staffing agency can provide added value by managing the process and analysing the data to find the ideal candidate.

## Evolving business practices

- Flexible working practices
- How candidates and clients interact
- Outsourcing

There is an ongoing trend towards flexible working practices. This is being driven by both clients wanting solutions for specific projects, to manage their costs and to improve productivity, and candidates wanting flexibility on when, where and how they work. This could be self-employment, part-time work or remote working, with project work enabling them to build up a wide portfolio of relevant experience. With the rise of the digital world, it is increasingly easy for candidates to work from anywhere in the world, removing geographic boundaries and time zone issues.

The rise of social media makes it easier to communicate with potential workers across the world, providing them with instant access to information about clients, helping them to make more informed choices about their career options.

In global markets outsourcing practices allow companies to control costs by using labour in lower cost jurisdictions for non-core tasks and to allow them to adjust the size of their workforce more easily. This is a trend seen in both the wider economy and the staffing industry.

## Our opportunity

We have a good spread of operations across both established and emerging staffing markets, with 72% of our net fee income derived from the UK, Germany, Japan and USA, which are the four largest staffing markets in the world. These markets provide a significant market opportunity for our brands to operate as niche market experts as well as being able to find experienced managers who have the skills and expertise to develop international brands.

The German staffing market is less mature, having only de-regulated in 2004, but it is the largest economy in Europe and we expect their staffing market to grow to be the biggest in Europe over the medium term. With the exception of Japan and Australia, the Asian and Latin American staffing markets are relatively immature. There are low levels of temporary recruitment in South East Asia, but as the staffing market develops we expect this will start to grow and we are well positioned to benefit from this. These emerging markets have high growth prospects and as they develop and mature, this should lead to more specialisation.

Our brands operate across 19 countries so we are able to service client and candidate needs across the world. It is an important part of our strategic plan to identify opportunities for brands to cross-border their expertise and provide an international service.

Our brands are specialists, with knowledge and expertise of their niche markets. We believe this gives them an advantage when working in talent shortage markets as they know where to find candidates and how to communicate with them. Our primary focus is also on professional and specialist job roles where we believe the biggest talent shortages exist and where recruitment agencies are needed to help identify hard-to-find candidates. We also expect these roles to be less impacted from changes in technology.

There is a significant long-term growth potential in the emerging staffing markets due to the size of their populations, concentration of work in large cities and increasing levels of middle class with better education levels than the previous generations. We have a good presence in the emerging markets with a particular focus on Asia Pacific, India and Latin America. As these markets develop we are positioned to grow with them.

In our markets we focus on the key economic centres, where we will see the best return on our investment. We do not have large networks of branch offices but focus where the workers and clients are concentrated, so having access to the greatest pool of vacancies and candidates.

In established markets we have a high proportion of temporary recruitment and we closely monitor changes in regulations across our territories. We participate in consultation exercises with the regulators to help them understand the benefits and attraction to workers of temporary labour solutions. In those markets where there is no or little regulation of labour markets we focus on permanent recruitment, but with the expertise around the Group we are well placed to develop temporary recruitment solutions as these markets develop.

We keep a close eye on new technologies and business models but we believe the key benefit of using a staffing agency is the expertise and knowledge they have of their market, so helping to source hard to find candidates and make the best possible match against job specifications. We encourage staff training and development across the Group and our multi-branded model develops niche sector expertise.

We have an overall bias towards temporary recruitment, offering workers the flexibility to work when they want or to help people get into the working environment. We expect this trend to increase and as markets get more regulated it removes any negative sentiment towards temporary working. We use social media across our brands to help communicate effectively with candidates.

We have a fast-growing Offshore Recruitment Services business operating out of India and providing a range of recruitment services, primarily to clients in the USA and UK.

# How we add value

## Drawing on our strengths

### People
The skills and expertise of our staff.

### Financial
Our ability to invest in the business.

### Brand reputation
Our brands are experts in their markets.

### Values & culture
Our decentralised structure provides operational autonomy for managers.

### Network
Our brands are servicing clients and candidates in 19 countries across the world.

### Technology
Our ability to connect with clients and candidates and operate our business effectively.

## Operating with excellence

### Permanent recruitment
We earn fees when a candidate is placed in a role with a client, with the fee typically being a percentage of the candidate's total salary. Services are generally provided on a contingent basis, so fees are only earned when a vacancy is filled. We also include training services in this category.

**Net fee income**

35%

### Temporary and contract recruitment
A fee is earned for the time worked by the candidate with the client, as a percentage of the salary earned in the period.

**Net fee income**

60%

### Offshore recruitment
A range of recruitment services are provided to clients from an offshore centre, with fees earned for utilising a consultant for a period of time on a client project.

**Net fee income**

5%

We use different brands to target different sectors, with each brand being an expert in their niche market. The management of each brand is responsible for running their business and have a direct ownership in their business, so aligning their interests with other shareholders. We focus on growth markets, both sectors and geographies, where there are opportunities to build our businesses. We have a bias towards temporary recruitment to provide flexible staffing solutions that are generally less volatile during economic cycles.

## How we create value

### Multi-branded model

We target different segments of the market with different brands. Each brand has specific in-depth knowledge and expertise in their market so giving them a competitive advantage in attracting candidates.

### Management equity philosophy

The Group applies a philosophy of management equity to align the interests of shareholders and key management through the sharing of risk and reward, with operating company management teams owning shares directly in their own businesses. This helps attract and then retain ambitious and talented managers. Our decentralised structure and entrepreneurial culture enables managers to run their businesses effectively and react to local opportunities.

### Focus on growth markets

We target operations in growth regions and sectors and have a good spread across both established and emerging staffing markets.

### Operational focus on temporary recruitment

Providing ongoing temporary recruitment services develops long-term client relationships and helps financial planning through more predictable earnings.

## Generating value for stakeholders

### Investors

Our business model helps us to deliver sustainable returns for shareholders with growth in earnings per share and a progressive dividend policy in line with trading performance.

Growth in profit and cash flow allows us to reinvest to grow the business in the future.

**Diluted adjusted EPS growth**

14%

**Dividend growth**

15%

### People

Our culture and values allow staff to develop and flourish, so they can reach their own goals and improve their careers.

**Average employee numbers**

1,282

(2015: 1,096)

### Community

We make a direct social and economic contribution in the countries we operate in, helping people to find work, to develop their careers and support their families through tax payments and use of local suppliers.

We help local businesses meet their objectives by helping them find suitable workers that fit their needs and requirements. By providing a quality value added service to our clients and candidates we enhance our brand reputation which should help generate repeat and new business.

# Our strategy

The Group's strategy is focused on growth, facilitating our vision to be a leading international, specialist staffing group.

## Objective

## How

### Develop leading specialist brands with sector expertise

We invest in our brands to ensure they have sufficient scale and strength to deliver sustainable profits. Leading brands should be more financially stable during the economic cycle and will benefit from synergies in operational processes, training, systems and marketing.

**Focus on professional and specialist job levels** where there are the greatest talent shortages, which in turn supports higher margins.

**Sectors with good long-term growth prospects** where our niche sector expertise helps us to deliver to the needs of clients and candidates.

### Maintain diversification and balance by geography and sector

Having a spread of operations across geographies and sectors reduces the reliance on any single market and minimises the impact on the Group from market fluctuations and external shocks.

**Footprint in key economic centres** where there is the highest concentration of workers and business so delivering the best return on investment.

**Established and emerging staffing markets** allows access to both stable mature markets and high growth emerging markets.

We follow an 'Invest and Develop' approach to deliver on our strategy.

**Develop**

It is important that our existing brands develop and grow their profits over the long term. Organic investment helps them to develop their services and grow scale and coverage. This is done by the following:

- Increase the headcount in an existing brand
- Add a new vertical specialism to an existing brand
- Enter a new or existing geography with an existing brand
- Start up in a niche sector

**Invest**

To accelerate our growth we also look at external investments, to fill gaps in our sector or geographic coverage or to bring in specific market knowledge into the Group.

External investment will occur where we don't currently have a presence in a region or sector or to help develop an existing brand by filling in gaps in their service offering:

- Enter a new geography or sector with a new brand
- Grow an existing brand with a bolt-on acquisition

### Develop a solid financial foundation

Having a strong financial foundation is key to delivering long-term sustainable results for the Group.

**Funding being available** to allow the Group to pursue investment opportunities.

### Financial discipline

Our investment activity is dependent on the resources we have available. We are in an overall debt position and we target a 'debt to debtors' ratio of 25%.

Our preference is for investments to be funded through equity or from operating cash flows and debt to be used for working capital funding. We review investment opportunities and funding options based on our expectations for the business and the costs of raising new funds to deliver the best overall result for shareholders.

## Progress and outlook

## Key risks and KPIs

- Net fee income from professional and specialist job roles consistent at 86% (2015: 86%)
- Investments made in leading brands in the Aviation and IT sectors
- Monroe Consulting plans to launch in Vietnam in 2017
- Increased average staff numbers to 1,282 from 1,096
- Merger of Reflex into FastTrack in UK Technical & Industrial sector at the beginning of 2017

Key risks: 2 3 4 6

KPIs: 1 3 4 5 6 7

See page 28

See page 26

21 brands operating in 19 countries.

- Invested in Aviation sector through Rishworth Aviation
- Invested in IT sector through ConSol Partners
- Split of net fee income by region is 32% UK, 28% Continental Europe, 32% Asia Pacific and 8% Americas

From a sector perspective we are keen to increase our presence in the Healthcare and Professional services sectors, which we see as having good long-term growth prospects and we are currently under-represented in. From a regional perspective we are keen to increase our presence in Latin America to build more scale in this region.

Key risks: 1 2 4

KPIs: 1 3

See page 28

See page 26

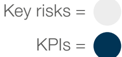
We increased our net debt levels in 2016 to £10.5m (2015: £7.3m) by using debt to help finance our external investments. If we exclude the cash held for pilot bonds in Rishworth Aviation, the net debt increases to £15.7m, representing 38% 'debt to debtors' ratio against our target of 25%. We see opportunities to bring this back in line with our target over the next two years. This also represents a net debt to EBITDA ratio of 1.5 (2015: 0.8).

Key risks: 5

KPIs: 2 8

See page 28

See page 26



# Investing in new markets

## Rishworth Aviation

In July 2016 we made an investment in 82.6% of the shares in Rishworth Aviation Limited and its sister companies ('Rishworth'). This represents an excellent strategic fit for the Group:

- **Leading brands**
  Rishworth is a leading independent staffing company providing pilots and aviation personnel to the Aviation industry, with clients throughout Asia Pacific, UK, Continental Europe and Africa.
- **Focus on professional and specialist job levels**
  Rishworth provides 100% professional jobs, so improving the Group's ratio.
- **Bias to temporary recruitment**
  Rishworth is a 100% contract recruitment business, with pilot contracts typically lasting between three and five years. This provides good visibility over future earnings.
- **Sectors with good long-term growth prospects**
  There is a global shortage of pilots and demand for air travel is expected to increase, especially in Asia and Africa.
- **Maintain diversification and balance by geography and sector**
  Rishworth is an international company, with offices in New Zealand and Sweden servicing clients across South and North Asia, UK, Continental Europe and Africa, further diversifying the Group. They have a good spread of clients and this represents a new sector for the Group.
- **Financial foundation**
  Rishworth is profitable and cash generative and the investment is expected to improve the Group's KPIs. Due to the long-term nature of its pilot contracts, the temporary margin as a percentage is low at circa 6%, but they operate with a high conversion ratio.

The senior management team of Rishworth hold 17.4% shares in the Company. They have signed up to our standard shareholder agreements with the shares expected to be held for a minimum holding period of between three and four years, before they can be voluntarily offered for sale to Empresaria over a minimum two-year period.

The long-term prospects for the sector are positive, with the International Air Transport Association ('IATA') forecasting that passenger demand will double over the next 20 years to 7.2 billion passengers by 2035, based on a 3.7% annual compound growth rate. The biggest driver of demand will be the Asia Pacific region and it is expected to be the source of more than half the new passengers over the next 20 years. The IATA expects China to become the largest aviation market, with India displacing the UK into third place and Indonesia entering the top 10. Vietnam is also forecast to be one of the five fastest growing markets. The developing markets share of passenger traffic has risen over the past decade from 24% to nearly 40% and this trend is expected to continue. Rishworth already has a strong presence in the Asia Pacific region with clients across the territory and is well placed to benefit from the growth in the market over the next 20 years.

Studies from both Boeing and Airbus in 2016 forecast that between 2016 and 2035 the world's commercial aviation industry will need approximately 600,000 new pilots, driven by new airplane deliveries and fleet mix. 40% of the demand will be from the Asia Pacific region due to the growth in low cost carriers. These businesses are interested in flexible labour solutions and using pilots on temporary contracts.

The strength of the management team, size and scale of the existing business, focus on compliance and quality and long-term industry growth trends give us confidence in their ability to deliver continued growth as part of the Empresaria Group.

www.rishworthaviation.com

New pilots needed between 2016 and 2035

600,000

Professional and specialist job roles

100%

Forecast annual compound growth rate in passenger demand

3.7%

Share of net fee income from contract staffing

100%

# Investing in new markets

## ConSol Partners

In October 2016 we made an investment in 65% of the shares in ConSol Partners (Holdings) Limited ('ConSol'), strengthening our presence in the high growth IT staffing sector. This represents an excellent strategic fit for the Group:

- **Leading brands**
  ConSol provides staffing solutions to organisations behind the internet revolution, with a focus on Communications & Mobile, Cloud Technologies and the Digital supply chain.
- **Focus on professional and specialist job levels**
  ConSol provides 100% professional jobs, so improving the Group's ratio.
- **Bias to temporary recruitment**
  ConSol provides both permanent and temporary staffing services. In 2016 51% of their net fee income was from contract services, although this is more heavily weighted to the UK and European business with a majority of permanent sales in the USA.
- **Sectors with good long-term growth prospects**
  The growth trends for the internet technology space are very positive with a global talent shortage across these markets. ConSol has placed staff in more than 50 countries since it started in 2008.
- **Maintain diversification and balance by geography and sector**
  ConSol operate from two key locations. The UK office services clients primarily in the UK and Continental Europe and the USA office covers their domestic market. The business launched organically into the USA in 2013. The net fee income is spread evenly between the three main regions of the UK, USA and Continental Europe (including the rest of the world), so adding to the Group's diversification. It also strengthens the Group's presence in the IT & Digital sector, which has been one of our key focus areas.
- **Financial foundation**
  ConSol is profitable and cash generative and the investment is expected to improve the Group's KPIs.

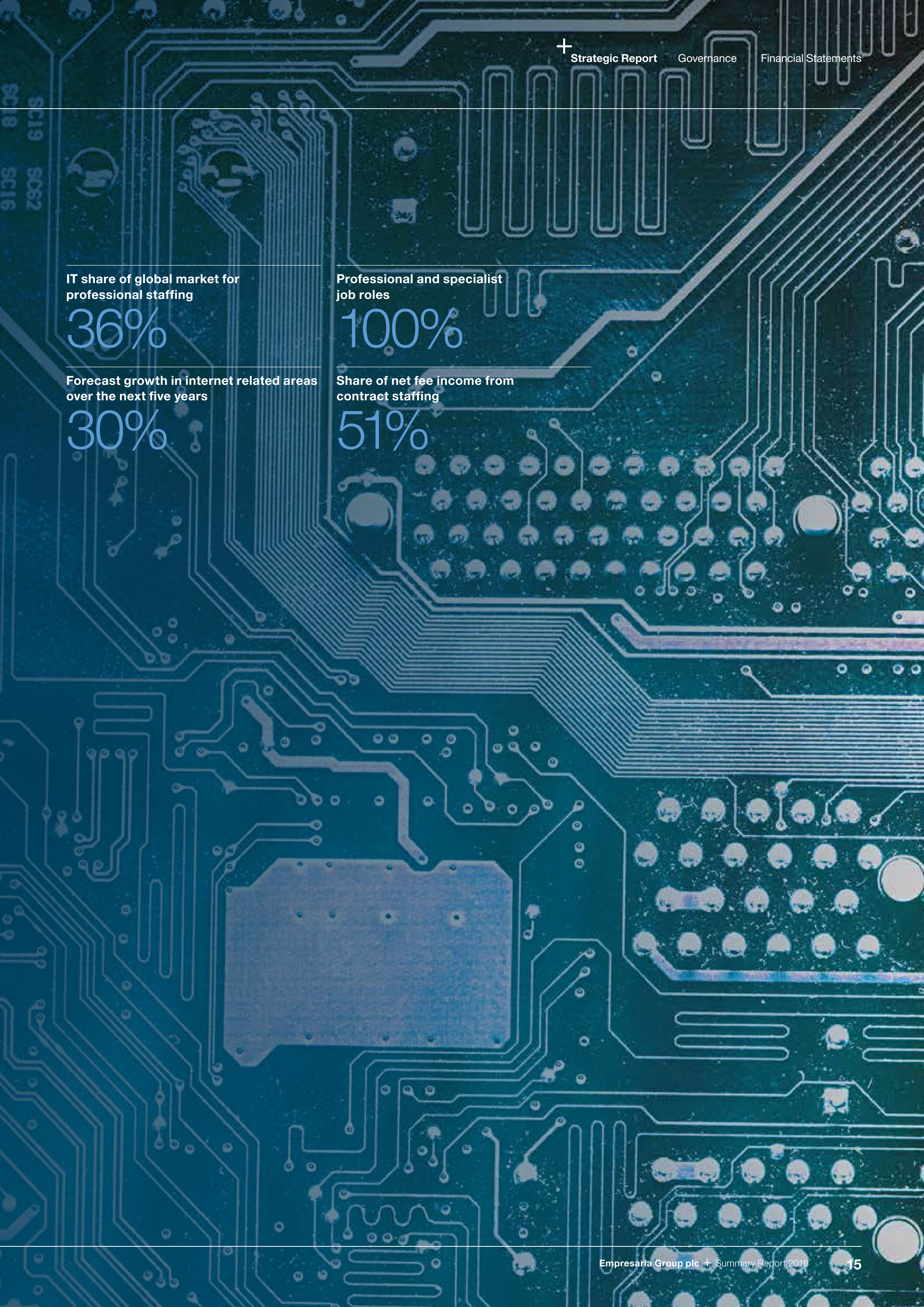
The senior management team of ConSol hold 35% shares in the Company and are committed to delivering on their growth plans for the business. They have signed up to our standard shareholder agreements with the shares expected to be held for a minimum holding period of between three and four years, before they can be voluntarily offered for sale to Empresaria over a minimum two-year period.

We believe that ConSol is positioned in the right locations and niche markets to take advantage of the predicted growth in the industry and to help companies solve their staffing needs in talent shortage markets. Staffing Industry Analysts ('SIA') data shows the largest IT staffing market in 2015 was the USA (52%), followed by Europe (27%) and Asia Pacific (17%). In that year IT staffing represented 36% of the global market for professional staffing. Demand for IT professionals is being fuelled by the interconnected developments in cloud computing, big data, mobile connectivity, digital marketing and data security, all markets that are being serviced by ConSol.

The IT industry forecasts huge growth in internet related areas which suggests good prospects for IT staffing over the next few years. In the USA IT staffing has outpaced overall staffing over the last 15 years and this trend looks set to continue. Gartner Group Inc projects there are 6.4 billion 'connected things' in 2016, up 30% on 2015 and it forecasts this will grow to 21 billion by 2020, and this is one of the more conservative forecasts out there. The Cisco Global Cloud Index forecasts that annualised cloud IP traffic will reach 14.1ZB (zettabytes) by the end of 2020, up from 3.9ZB in 2015, a compound annual growth rate of 30%. The 'Worldwide Semiannual Big Data and Analytics Spending Guide' from IDC expects worldwide revenues for big data and business analytics to grow from nearly $122bn in 2015 to more than $187bn in 2019, an increase of more than 50% over the five-year forecast period. More than half of this will come from the USA. A number of sources, including IBM estimate that as much as 90% of the data in the world today has been created in the last two years. This kind of growth should lead to increasing demand for IT staff over the medium term.

The strength of the management team, their successful organic expansion into the USA, their ambitions to grow the business and long-term industry growth trends give us confidence in their ability to deliver growth as part of the Empresaria Group.

**www.consolpartners.com**



IT share of global market for professional staffing

36%

Professional and specialist job roles

100%

Forecast growth in internet related areas over the next five years

30%

Share of net fee income from contract staffing

51%

# Delivering profitable growth

We are pleased to finish the year with a record profit level

**We are pleased to finish the year with a record profit level, an adjusted profit before tax of £9.2m (2015: £7.5m). We also grew the Group with two high quality brands joining during the year, helping to strengthen our presence in the IT, Digital & Design sector and entering into the new high growth Aviation sector. Both brands are already diversified by geography and we believe we can help them to grow further by being part of our Group.**

Our strongest results were in Germany with Headway, Japan with Skillhouse and South East Asia with Monroe Consulting. We also saw solid performances in Finland, Australia, China, India, Chile and within the UK market the Technical & Industrial sector grew well. Group revenue increased by 44% to £270.4m (2015: £187.3m) and net fee income was up 20% to £59.0m (2015: £49.2m). Our organic development was offset by weakness within the UK and Middle East markets. The UK was negatively impacted by market-wide lower confidence levels due to the EU referendum and in the Middle East, a permanent recruitment market, weak economic conditions persisted throughout the year. We have mitigated the effects of this with some restructuring and we believe this will help those businesses deliver improved results in 2017. As seen historically, the Group has demonstrated a good track record for quickly responding to issues within our business and returning those businesses to growth and as an active management team we continue to closely monitor results for all our brands and assist them with both challenges and opportunities alike. The level of diversification across the Group mitigates against any individual business, sector or market having an undue influence on the wider Group results.

The weakening of Sterling during the year helped the translation of our overseas results. On a constant currency basis we saw revenue growth of 33%, net fee income growth of 10% and adjusted profit before tax up 11%. The underlying growth in net fee income was effectively from the investments made in Rishworth Aviation and ConSol Partners in 2016 and the full year impact from Pharmaceutical Strategies that joined the Group in October 2015. Again, this demonstrates the benefit of our strategy to be diversified and balanced by geography and sector and to focus on both organic development as well as making selective external investments, with a slow down in one sector or region offset by stronger results elsewhere.

For 2016 we have more than two thirds of our net fee income generated from outside the UK, with Asia Pacific and UK both at 32%, Continental Europe at 28% and Americas at 8%. We analyse our regional performance based on the locations where key management and staff are situated, with the majority of our brands only working in their domestic market.

Pharmaceutical Strategies, the investment we made in 2015, has integrated well into the Group. We are pleased that it has grown its client base and seen an improved penetration across existing clients. Our decision to invest in the management team, bringing in additional staff to support the future development of the business and their largest client reducing its overall spend on staffing requirements has resulted in a short-term impact on profitability. The long-term drivers of growth in the US healthcare market of an ageing population, increasing levels of obesity and positive economic conditions remain in place and give us confidence in the prospects for this business.

The two investments made in 2016 were both clearly aligned to our strategic goals, being established brands in their sectors, focused on professional and specialist job roles in sectors with good long-term growth prospects. They are already diversified geographically but can also benefit from the Group's coverage and global footprint. They both have a strong contractor bias and have delivered good profit growth and we see opportunities for further growth in the next few years. We are focused on integrating these businesses into the Group, to ensure they get the maximum benefit from being part of Empresaria. We continue to see external investment as an important avenue of growth and development for the Group and we will look to build up our portfolio of opportunities through the coming year, especially in areas where we feel we are under-represented as a Group. From a sector point of view that is Healthcare and Professional Services and regionally Latin America, but we keep an open mind to opportunities that present themselves.

As part of our vision to deliver sustainable growth in earnings per share, we are following a five-year growth plan to 2018. We have made further progress against this plan with growth in net fee income of 20% (10% in constant currency) and an increase in the conversion ratio to 16.6%, the fifth year of continued improvement. Our 'debt to debtors' ratio increased from 23% to 38%, when calculated after excluding the cash held for pilot bonds in Rishworth Aviation, so moves away from our 25% target. This was following our decision to use debt finance to help fund the investments made in the year. We expect to achieve our 25% 'debt to debtors' target by 2018.

Organic growth is a core part of our business model and we have specific plans with each brand to help them develop into leading brands in their sectors. We are confident that the plans we are following will help the Group deliver profitable growth across all of our regions in 2017.

## Five-year plan 2014–2018

### Net fee income growth

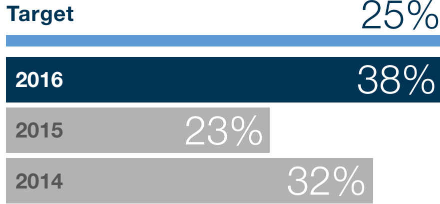
| | |
|---|---|
| Target | 10% |
| 2016 | 20% |
| 2015 | 10% |
| 2014 | 5% |

### Conversion ratio

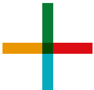
| | |
|---|---|
| Target | 20% |
| 2016 | 16.6% |
| 2015 | 16.3% |
| 2014 | 14.7% |

### Debt to debtors ratio

| | |
|---|---|
| Target | 25% |



# Our regions



## United Kingdom

### Overview

| £m | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | **70.1** | 62.7 | 65.8 |
| Net fee income | **19.0** | 18.4 | 15.9 |
| Adjusted operating profit | **1.5** | 2.2 | 2.2 |
| % of Group net fee income | **32%** | 37% | 35% |
| Average number of employees | **262** | 224 | 197 |

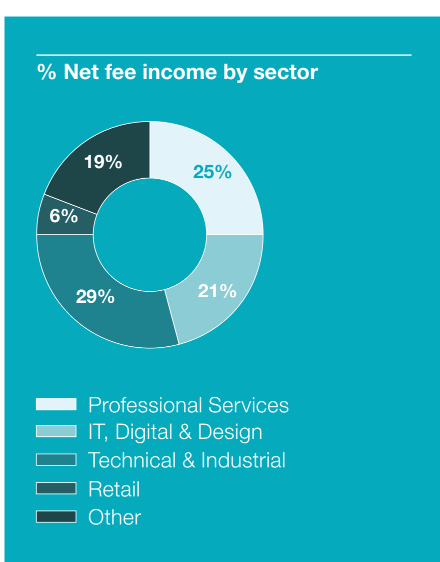
Revenue increased by 12% and net fee income was up 3%, due to the addition of ConSol Partners from October 2016 and an improved result in the Technical & Industrial sector following the move away from low value work in the last few years. This focus on higher value work also helped lessen the impact from the change in rules on travel and subsistence in April 2016. At the beginning of 2017 we merged the operations of the FastTrack and Reflex brands. Both operate within the Technical & Industrial sector and are complementary in terms of niche focus and client base. We expect to see cost savings in the back office and a streamlined management structure, which we hope will also lead to improved top line performance. The combined business has a good coverage across the UK with offices in the North, Midlands, London and South and we have plans to grow their fee-earning staff numbers in 2017.

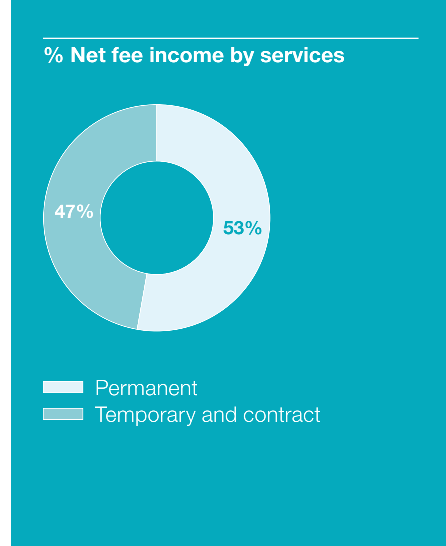
The investment in ConSol Partners strengthened our presence in the IT, Digital & Design sector, with our existing brands operating within the creative niche of this sector. The contribution from ConSol Partners was positive at the net fee income level with a small profit contribution before amortisation charges, but this is offset by the legal and due diligence costs incurred in making the investment. We expect to see a significant profit contribution in 2017, their first full year in the Group. Within the creative niche our brands saw a reduced result, following increased property costs and short-term impacts from changes in management. We are confident of an improved result from these businesses next year.

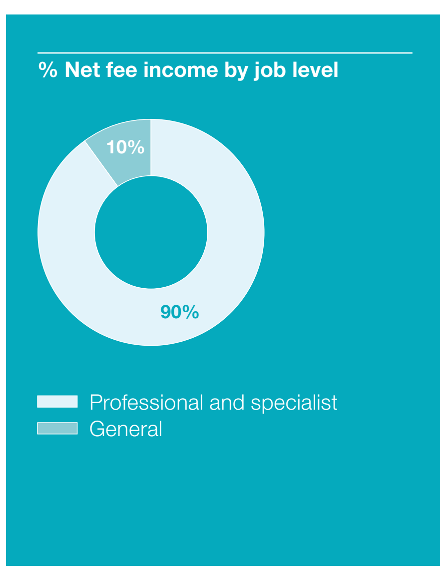
Our brands in Domestic services, Recruitment-to-recruitment sales and Retail (new house sales) delivered broadly flat profits year-on-year.

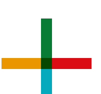
We saw the biggest impact from the EU referendum within the Professional Services sector, with net fee income and profit both down year-on-year. The market stabilised following the vote, but activity levels were lower and costs were higher in the year from both property and staff costs as they invested in building up a service offering in Finance and Accounting.

**Brands**
LMA
Mansion House
FastTrack
McCall
Greycoat
Become
Ball and Hoolahan
Teamsales
ConSol Partners





# Continental Europe

## Overview

| £m | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | **92.0** | 75.2 | 76.8 |
| Net fee income | **16.8** | 14.5 | 15.0 |
| Adjusted operating profit | **4.9** | 3.9 | 3.2 |
| % of Group net fee income | **28%** | 30% | 34% |
| Average number of employees | **127** | 123 | 132 |

Revenue grew by 22% and net fee income by 16%, with strong profit growth of £1.0m to £4.9m. There was a reduced temporary margin in Germany, due to changes in the client mix and pay rate tariffs. Currency movements were beneficial, with constant currency growth in net fee income of 2%.

The Headway business in Germany and Austria dominates the region and we saw a good result in Austria, following a key project win during the year.

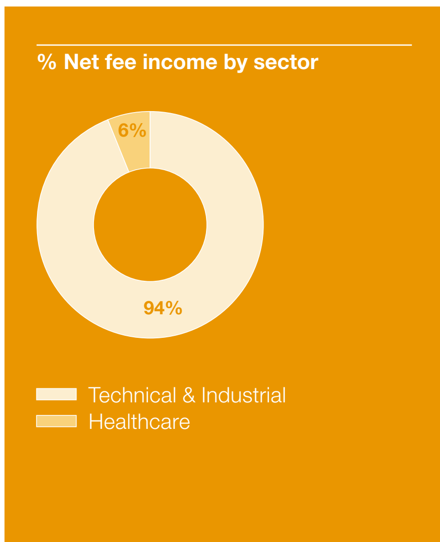
The Logistics division in Germany also had strong results through increased penetration with key clients. In the temporary staffing division, investments have been made in training and sales staff to help drive future growth. The business confidence in Germany is positive as we move into 2017, however, we are cautious about the short-term prospects for the market. There are elections in Germany in September 2017 and new legislation will be implemented in April 2017 which will limit the time a worker can be on a temporary contract with a client to 18 months, as well as new equal pay regulations being introduced. We believe the new rules will be positive for the industry over the medium term but there may be a short-term dampening effect on demand as clients get to grips with the new rules. The first direct impact of this legislation will be in October 2018 and we are working with clients and advisers on plans to deal with the new rules where they have long-standing temporary workers.

Our Healthcare business continues to improve, with an increasing proportion of temporary workers from Finland and lower costs, having closed their Estonian presence at the end of 2015. We are pleased with the progress being made.

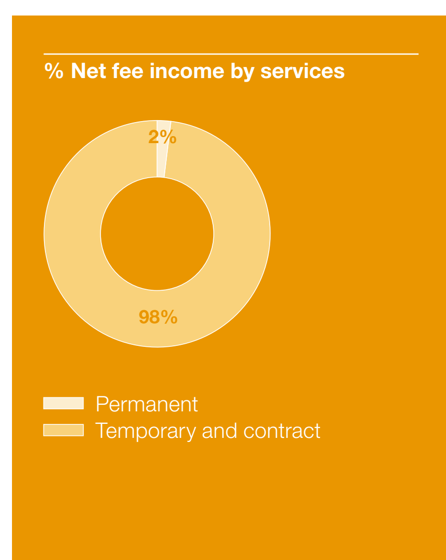
**Countries**
Germany
Austria
Finland

**Brands**
Headway
Mediradix

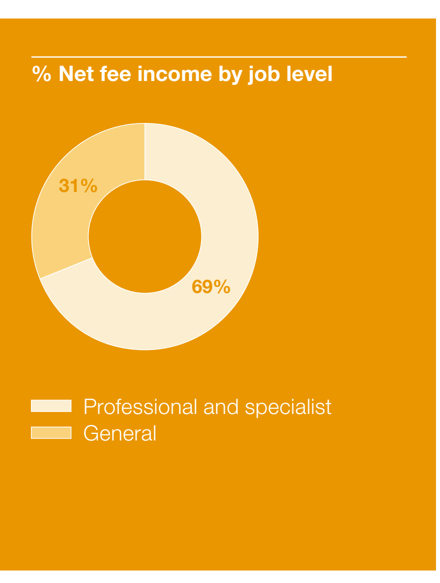
## % Net fee income by sector



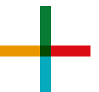

## % Net fee income by services




## % Net fee income by job level



# Our regions



## Asia Pacific

### Overview

| £m | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | **77.3** | 29.2 | 27.7 |
| Net fee income | **18.6** | 14.2 | 12.3 |
| Adjusted operating profit | **2.7** | 1.6 | 1.2 |
| % of Group net fee income | **32%** | 29% | 28% |
| Average number of employees | **795** | 673 | 545 |

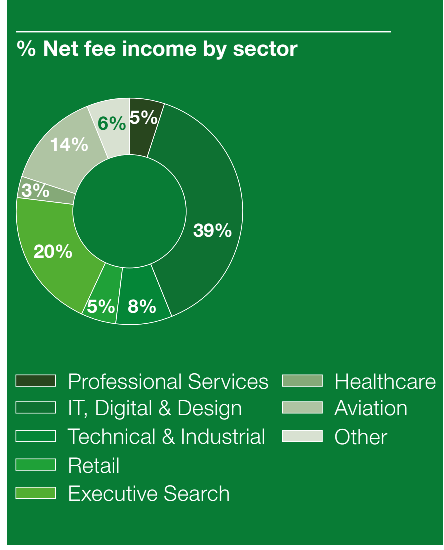
Revenue grew from £29.2m in 2015 to £77.3m in 2016, helped from July 2016 by our investment in Rishworth Aviation. The growth in net fee income was 31%, as Rishworth Aviation has a low temporary margin of 6%, so there is a greater impact on revenue. Although the temporary margin is low, the quality of the business is high with contractors on long-term assignments and the Company operating with a good conversion ratio. This investment made a positive contribution to profit, despite the legal and due diligence costs associated with the investment. It provides the Group with an entry to the Aviation sector and is one of the leading staffing companies in this niche sector. We expect it to deliver improved profits in 2017 as it contributes for the full year.

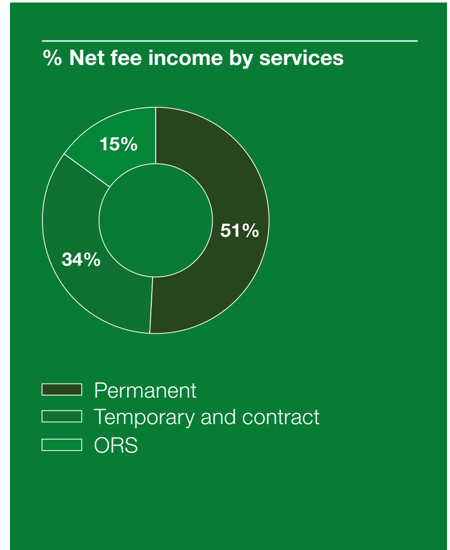
There were strong performances from Skillhouse in Japan (IT, Digital & Design sector) and Monroe Consulting in South East Asia and China (Executive Search sector). Also, we were pleased with the results in India and Australia. In India, we opened up a third office in November 2015 to accommodate growth and it is operating in line with expectations, but profit growth was curtailed due to currency impacts, as sales and receivables with the UK contributed less due to exchange rate movements. The Monroe Consulting brand saw particularly strong results from China and Malaysia, with China operating in its first full year under the Monroe brand and Malaysia profitable in its second full year. They are planning to open up in Vietnam during 2017. The restructuring of our training business in Indonesia has been successful, but we expect profit growth to be slow.

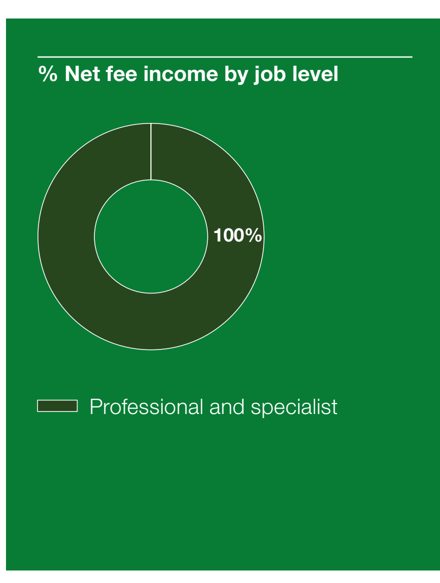
Overall the region benefited from currency movements, with underlying results excluding currency and investments reducing year-on-year, due to poor results in the Middle East. The market was negatively affected by the drop in oil price and the weak economic conditions continued into the second half of the year. This resulted in a loss of business confidence with delayed hiring decisions which quickly impacted this purely permanent staffing market. Our net fee income was down 50% over the year. We have restructured the business, with a reduced headcount and lower costs and believe it is right-sized for the local market moving into 2017. A small team has also started operating in the UK market, to help ex-pat candidates returning from the Middle East.

**Countries**
- Japan
- Indonesia
- India
- Australia
- UAE
- Thailand
- Singapore
- China
- Hong Kong
- Philippines
- Malaysia
- New Zealand

**Brands**
- Skillhouse
- FINES
- Become
- Monroe Consulting
- Learning Resources
- IMS
- BW&P
- McCall
- LMA
- Greycoat
- Rishworth Aviation



# Americas

## Overview

| £m | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | **31.0** | 20.2 | 17.6 |
| Net fee income | **4.6** | 2.1 | 1.4 |
| Adjusted operating profit | **0.7** | 0.3 | 0.0 |
| % of Group net fee income | **8%** | 4% | 3% |
| Average number of employees | **98** | 76 | 68 |

Revenue grew by 53% to £31.0m, with net fee income up 119% to £4.6m. This is primarily from having a full year contribution from Pharmaceutical Strategies, an investment made in October 2015. The business made progress in broadening their client base, with some new clients won and a better penetration across existing clients. However, net fee income was down year-on-year as their largest client reduced their agency spending. We also made investments in the management team to support the platform for future growth, but this cost had a short-term impact on profits. The future structure and funding of the Affordable Care Act is uncertain following the recent change in the US Government. This has been one of the drivers of growth in the healthcare sector in recent years, but the key underlying factors of an ageing population, rising obesity levels and good economic conditions continue to exist and we believe they will drive growing demand for healthcare over the medium term.

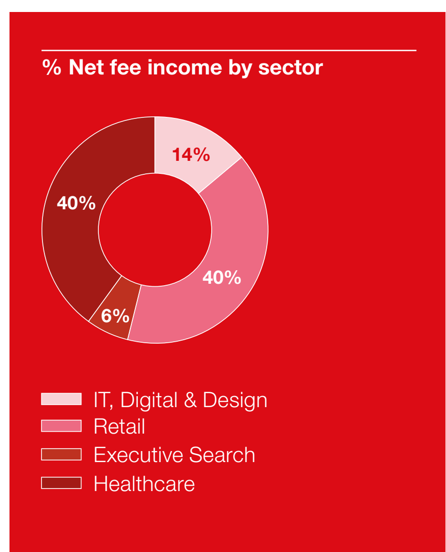
We also benefited from three months of trading from the ConSol Partners USA business.

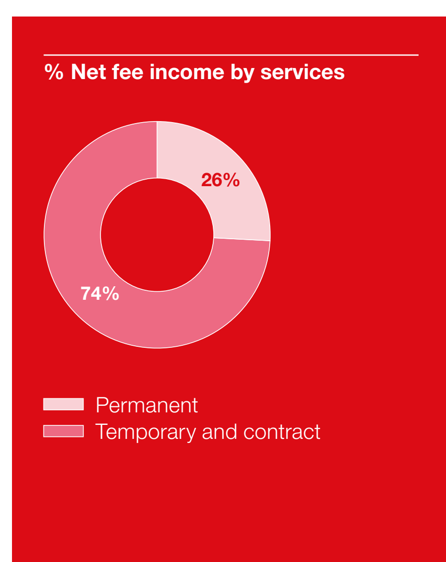
In Chile, we were pleased with the continued growth, with the developing areas of permanent and temporary staffing delivering the highest growth and the traditional outsourcing business remaining solid.

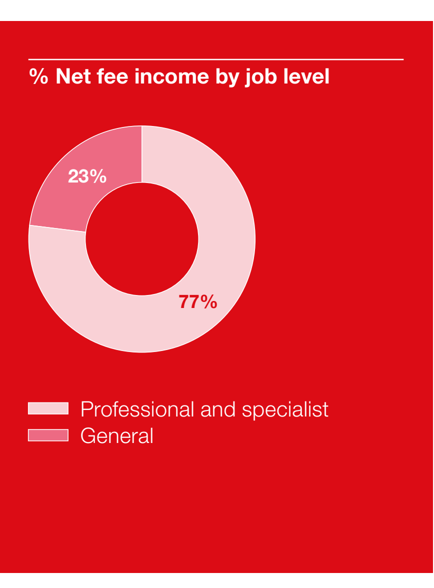
The Monroe Consulting (Executive Search sector) operations in Mexico and Chile are slowly gaining traction in those markets, but progress is not as quick as we would like to see. We are closely monitoring the economic situation, especially in Mexico, following the new US Government's approach to regional trade.

**Countries**
USA
Chile
Mexico

**Brands**
Alternattiva
Monroe Consulting
Pharmaceutical Strategies
ConSol Partners



# A year of progress

## The Board has proposed an increased dividend of 15%

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Revenue (£m) | **270.4** | 187.3 | 187.9 | 194.4 | 194.3 |
| Gross profit (£m) | **59.0** | 49.2 | 44.6 | 42.6 | 43.9 |
| Operating profit (£m) | **8.5** | 7.6 | 6.4 | 5.5 | 4.4 |
| Adjusted operating profit (£m)* | **9.8** | 8.0 | 6.6 | 6.0 | 5.4 |
| Profit before tax (£m) | **7.9** | 7.1 | 5.9 | 4.9 | 3.6 |
| Adjusted profit before tax (£m)* | **9.2** | 7.5 | 6.1 | 5.4 | 4.6 |
| Diluted earnings per share (p) | **9.3** | 9.3 | 7.5 | 5.2 | 3.0 |
| Adjusted diluted earnings per share (p)* | **11.3** | 9.9 | 8.0 | 6.2 | 5.0 |
| Proposed dividend per share (p) | **1.15** | 1.0 | 0.70 | 0.35 | 0.35 |

* Adjusted to exclude amortisation of intangible assets, exceptional items, gain or loss on disposal of business and fair value charges on acquisition of non-controlling interests

A description of the performance of the business in the year is included in the Chairman's statement and Chief Executive's review.

### Finance income and costs

Finance income was £0.1m (2015: £0.1m), all being bank interest income. Finance costs were £0.7m (2015: £0.6m), which primarily related to interest payable on invoice discounting, bank loans and overdrafts. It also included £0.1m of interest on the late payment of tax following conclusion of a tax audit in Germany.

### Taxation

The total tax charge in the year is £3.5m (2015: £2.6m); representing an effective tax rate of 44% (2015: 36%). This rate is higher than the UK rate due to a number of factors:

- The mix of profits is weighted towards higher tax jurisdictions, including Germany, Japan, India, Australia and New Zealand
- A deferred tax asset has not been recognised for certain of the tax losses around the Group and the asset previously recognised for tax losses has reduced
- The level of non-deductible expenses in the year, including the legal and due diligence costs related to the investments in Rishworth Aviation and ConSol Partners

### Dividend

During the year, the Group paid a dividend of £0.5m in respect of the year ended 31 December 2015, amounting to 1.0p per share. For the year ended 31 December 2016, the Board is proposing a dividend of 1.15p per share, which if approved by shareholders at the Annual General Meeting, will be paid on 31 May 2017 to shareholders on the register on 5 May 2017.

### Impairment charges and release of contingent consideration

There is a credit to the income statement of £0.6m from the release of contingent consideration for Pharmaceutical Strategies. This is based on the current and expected trading level over the next year (being the period covered by the contingent consideration) and reflects our best estimate of the amount payable.

There is an impairment charge of £0.6m, following a review at year end of the recoverable amounts of the Group's tangible and intangible assets.

This arose on the following companies:

- BW&P operating in the Middle East. Following a slow-down in the local economy and contraction in the staffing market we have restructured the business, right-sizing it for the current conditions. We expect improved returns from this business in 2017, but due to the continuing uncertainties in the market we have fully impaired the intangibles and goodwill, an amount of £0.2m
- Our training business in Indonesia, Learning Resources, has delivered a small profit in the year following restructuring in the prior year, turning around the losses incurred in 2015. However, we remain cautious on the prospects for growth in profit over the next few years and so have fully impaired the goodwill, an amount of £0.2m
- In Japan our fashion retail brand, FINES, has delivered consistent results but profit levels are small. We have a clear plan to increase the profit level but there is uncertainty on how successful this will be. We have recognised an impairment charge against goodwill of £0.2m

## Treasury and risk management

### Treasury

The Group's treasury function is managed centrally. Under the Group's treasury policy speculative transactions are not permitted and where possible liabilities, typically debt, match the location and currency of the related assets. The following matters are reserved for Board approval:

- Changes to the Group's capital structure
- Approval of Group financing arrangements or significant changes to existing arrangements
- Approval of treasury policies and any activity involving forward contracts, derivatives, hedging activity and significant foreign currency exposures
- Approving the appointment of any of the Group's principal bankers

Treasury is managed to deal with the following risk areas.

### Liquidity and funding risk

The Group maintains a range of appropriate facilities to manage its working capital and medium-term financing requirements. At the year end the Group had banking facilities totalling £52.0m (2015: £36.7m) with the increase mainly coming from the new revolving credit facility. We also increased overdraft and loan facilities overseas, and the UK invoice financing facility increased by £4.0m with ConSol Partners joining the Group and adding their facility. We aim to transfer them to our Group facility during the first half of 2017. The amount of facility undrawn of £15.4m (2015: £15.6m) excludes the headroom on the invoice financing facility, which is available to the UK companies only. At 30 June 2016 we entered into a new £10.0m revolving credit facility with HSBC Bank plc to provide investment funding. There is also a £5.0m accordion which has been agreed in principle by the bank but would need new credit approval for any draw down from this amount.

| | **2016 £m** | 2015 £m |
|---|---|---|
| Overdrafts (UK) | **6.2** | 6.5 |
| Revolving credit facility (UK) | **10.0** | – |
| Term loan (UK) | **3.5** | 4.5 |
| Overdrafts and other loans (non-UK) | **15.3** | 12.7 |
| Total overdrafts and loans | **35.0** | 23.7 |
| Invoice financing facility (UK) | **17.0** | 13.0 |
| | **52.0** | 36.7 |
| Amount of overdraft and loan facility undrawn at year end | **15.4** | 15.6 |

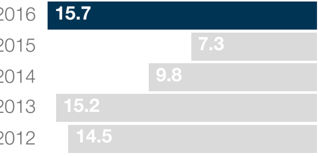
Reported Group net debt increased to £10.5m at 31 December 2016 (2015: £7.3m). This includes cash held by Rishworth Aviation for pilot bonds, amounts which are repayable to pilots or the client when their contract ends. When calculating our 'debt to debtors' ratio we exclude the cash held as pilot bonds and this net debt level was £15.7m (2015: £7.3m). The 'debt to debtors' ratio has increased to 38%, from 23% last year due to the investment spend.

| | **2016 £m** | 2015 £m |
|---|---|---|
| Cash at bank and in hand | **18.0** | 7.7 |
| Overdraft facilities | **(2.8)** | (2.3) |
| Invoice financing | **(8.9)** | (6.9) |
| Bank loans | **(16.8)** | (5.8) |
| Reported Group net debt | **(10.5)** | (7.3) |
| Pilot bonds | **(5.2)** | – |
| Group net debt for calculating 'debt to debtors' ratio | **(15.7)** | (7.3) |

**Net debt**

**£15.7m**

(2015: £7.3m)




As part of the new revolving credit facility we need to meet bank covenant tests on a quarterly basis, the first test being for the quarter ended 30 June 2016. All tests have been met during the year. The covenants, and our performance against them at year end are as follows:

| Covenant | Target | **Actual** |
|---|---|---|
| Net debt:EBITDA* | < 2.75 times | **0.6** |
| Interest cover | > 5.0 times | **19.3** |
| Debt service cover | > 1.25 times | **6.5** |

* Target started at 3.0, reducing to 2.75 from the quarter ended 31 December 2016 and to 2.5 from the quarter ended 31 December 2017

### Interest rate risk

The Group's bank facilities are subject to floating interest rates. This is expected to match the interest costs with the economic cycle (eg when interest rates are higher there is typically better economic growth and so for a cyclical industry such as recruitment, profits should be greater when the economy is performing positively). The overdraft and invoice financing facilities are used to fund working capital requirements for temporary recruitment businesses. During a downturn there is typically an unwinding of working capital as trade receivables are collected, so reducing the financing requirement and subsequent interest cost.

Within the UK Group the majority of bank accounts are included in a cash pooling arrangement. An interest optimisation model allows currency balances (including overdrafts) to be included within the cash pooling arrangement. With interest income not generally paid on current accounts, the Group aims to minimise the external interest cost by repatriating surplus funds from around the Group to minimise the use of the overdraft facilities.

Finance costs were £0.7m (2015: £0.6m), which primarily related to interest payable on bank facilities but also included £0.1m for interest on late paid tax. The effective interest rate for bank facilities for the year was 2.6% (2015: 2.8%).

### Foreign exchange risk

There was no foreign exchange from trading in the year (2015: gain of £161,000).

The Group remains open to translation risk from reporting overseas results in Sterling. We do not actively hedge this exposure, with the diversity of operations across different countries providing an element of natural hedge. During the year we were positively impacted by movements in exchange rates on the translation of Group results, the largest are detailed below:

| Currency | Decline in Sterling in the year using average rates (P&L) |
|---|---|
| Japanese Yen | 20% |
| Indonesian Rupiah | 12% |
| US Dollar | 12% |
| Australian Dollar | 11% |
| Euro | 11% |
| Chilean Peso | 8% |

There are a small number of forward currency contracts in place at IMS and ConSol Partners. The amount covered by these at year end was £0.6m (2015: Nil).

### Credit risk

The main credit risks arise through the use of different banks across the Group and on the Group's trade receivables. The credit ratings of the banks used within the Group are monitored with a target that no more than 10% of Group cash is held in banks with a rating below BBB (Fitch rating) or equivalent. This target was fully met throughout the year.

Debtor days are reviewed monthly with high balances followed up with local management. Average debtor days for the Group in 2016 were 47 (2015: 51), with a year end balance of 41 (2015: 52 days). These figures were helped by Rishworth Aviation joining the Group as they have low debtor days, with airlines typically paying either in advance or within a short period for pilot salary costs. On a comparative basis, excluding Rishworth Aviation, the year end and average Group debtor days were 52.

The debtor days in UAE remain higher than the Group average. The outstanding debtor balance has reduced, but with the poor economic conditions in the region we have seen a higher level of bad debt write off than normal. As a Group our bad debt expense was £0.6m in the year, up £0.3m on the prior year.

### Average debtor days for year

| Year | Days |
|---|---|
| 2016 | 47 |
| 2015 | 51 |
| 2014 | 52 |
| 2013 | 50 |
| 2012 | 51 |

## Management equity philosophy, minority interests and investments

### Management equity philosophy

A key component of our business model is management equity, where senior management own shares directly in the operating companies they are responsible for.

This is described in more detail below.

Where we acquire a majority stake in a business, the shares remaining with the founder are called 'first generation shares'. There are no material changes to the rights belonging to these first generation shares retained by founder management. Our model also enables senior management to acquire 'second generation shares'. This will often be when the first generation shares have been acquired by Empresaria and we want to incentivise the next tier of management in the operating company to grow its business to the next level. Management buy these second generation shares at market value, investing their own cash, which is at risk if the business does not perform. To help lower the market value of the second generation shares (to make it affordable for management to acquire a meaningful stake in the business they are responsible for) and to protect the profit that we have already acquired, we set a 'threshold profit' level for valuing second generation shares. These second generation shares only start creating value for management if the profit grows above the 'threshold profit' level. The second generation shares typically have restrictions, such as limited or no entitlement to dividends and the fair value paid by the management shareholder reflects these restricted rights.

Senior management has the opportunity to retain or acquire shares in the operating company they are responsible for.

Management have the opportunity to create a meaningful capital value over time if they can grow the profit in their business. This works well with our decentralised structure, as the local management team run their business with a high level of operational autonomy.

This aligns the interests of management with Empresaria as a majority shareholder and it encourages a long-term view for the business. This is a key tool for both attracting good quality managers, as well as staff retention.

**Typical 5 year holding period**

- At least 51% of the shares are owned by Empresaria
- Shares are retained by managers or acquired at fair value

- Shares can be offered for sale after a specified holding period
- Shares are sold over a 2–3 year minimum period
- Decision to purchase the shares is at Empresaria's sole discretion. No put options in place
- Decision based on each specific situation, with consideration of the management succession plan in place, the recent trading performance and projections for growth in the next few years

- Valuation basis agreed in shareholders agreement
- The valuation is typically based on the average profit after tax for the previous three full years before the shares are sold, using the Empresaria trading multiple (share price divided by last EPS) less 0.5, to ensure it is earnings-accretive to Empresaria shareholders. The multiple is capped at a maximum of 10

**Non-controlling interests**
Based on the results for the year ended 31 December 2016, the total value of all non-controlling interests (shares held by management in the operating companies they are responsible for), if purchased in full in 2017 using the valuation mechanisms in existing shareholders agreements, would total £9.0m (2015: £3.6m, ignoring any potential discounts under the shareholders agreements. There is no obligation on the Group to acquire the shares held by management at any time.

In some situations the consideration payable under the shareholders agreement for second generation equity may be greater than the fair value of the shares under IFRS 13, where there are restrictions over the rights of the shares, typically over dividends. The valuation mechanism in the shareholders agreements uses an earnings multiple, which does not differentiate between shares with restricted rights and those without restrictions. If the price paid for the shares is in excess of this fair value, this additional amount paid is recognised as a charge in the income statement. These charges are treated as adjusting items when presenting the adjusted operating profit, adjusted profit before tax and adjusted earnings per share.

In June 2016 we increased our shareholding in Monroe Consulting (Thailand) by 10%, taking our interest up to 70%. The consideration of £0.2m was paid in cash, which was charged in the income statement (2015: £Nil). Based on the results for the year ended 31 December 2016, for those shares with restricted rights, the amount payable using the valuation mechanisms in the existing shareholders agreements that is in excess of the fair value, if purchased fully in 2017 would total £2.4m (2015: £1.3m), ignoring any potential discounts under the shareholders agreements.

In April 2016 we increased our interest in Ball and Hoolahan (IT & Design sector in the UK) from 75% to 100%, acquiring first generation shares from the founder who left the business as part of a planned transfer of ownership. The consideration was £0.2m, all paid in cash and accounted for as an increase in our investment.

During the year ended 31 December 2016, management acquired second generation shares in the Headway Group of companies, Pharmaceutical Strategies and Monroe Consulting (Malaysia). These shares all have restricted rights. Details of the share percentage held by the Group can be found in note 6 to the accounts of the Parent Company.

**Investments and disposals**
During the year, the Group made the following investments:
- On 5 July 2016 we invested in 82.6% of the shares in Rishworth Aviation. Total consideration was US$10.0m (£7.5m), paid fully in cash on completion. The remaining 17.4% interest is held by the senior management team in line with our management equity philosophy. Management have entered into our standard shareholders' agreement, with shares expected to be held for a minimum holding period of three to four years before they can be offered for sale, over a minimum of a further two years, with no obligation on Empresaria to acquire them
- On 6 October 2016 we invested in 65% of the shares in ConSol Partners. Total consideration was £9.5m, with £3.9m paid in cash on completion and a deferred amount of £5.6m payable in the first quarter of 2017. In January 2017 £3.2m was paid in cash and a further £2.4m is expected to be paid before the end of March 2017. Management have entered into our standard shareholders' agreement, with shares expected to be held for a minimum holding period of three to four years before they can be offered for sale, over a minimum of a further two years, with no obligation on Empresaria to acquire them

A deferred consideration payment of £3.0m was paid in cash in relation to the acquisition of Pharmaceutical Strategies in October 2015. No further payments are expected under this agreement, with a £0.6m release in the year ended 31 December 2016 to reflect our best estimate of the amount payable.

The Group received £0.1m in deferred consideration from disposals made in 2013 of the Bar 2 payroll business and in March 2015 of the GiT business.

## Cash flow
Net debt increased by £3.2m in the year to £10.5m (2015: £7.3m). The main areas of expenditure were on business investments, a net £6.4m including cash acquired as part of the investment of £7.9m. This includes cash held for pilot bonds, which is £5.2m at year end. These bonds are repayable to the pilot or client over the period of the pilot contract and a corresponding liability is recognised on the balance sheet. There was also capital expenditure on fixed assets of £0.8m, dividends to shareholders of £0.5m, with a net £0.4m working capital inflow. Tax payments were £4.7m, significantly up on the prior year, through a combination of increasing profits and the conclusion of a tax audit requiring an additional tax payment.

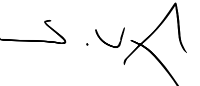
## Post balance sheet events
There were no post balance sheet events.

## Going concern
The Board has undertaken a recent and thorough review of the Group's budget, forecasts and associated risks and sensitivities. The Group's UK and German overdraft facilities were renewed in February 2017 for a further 12 months. Given the business forecasts and early trading performance, the Group is expected to be able to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the accounts. As a result, the going concern basis continues to be appropriate in preparing the financial statements.

This Strategic Report was approved by the Board on 21 March 2017 and is signed on its behalf by:

By order of the Board

**Joost Kreulen**
Chief Executive Officer



**Spencer Wreford**
Group Finance Director

21 March 2017

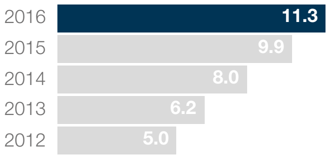
# Delivering on our numbers

## 1. Adjusted diluted earnings per share growth

This demonstrates return to shareholders, in line with our strategy of delivering a sustainable growth in earnings per share.

The variable remuneration of the Executive Directors (annual bonus) is linked to this measure. The LTIP is linked to the reported diluted earnings per share.

Progress: EPS grew by 14%, representing the fifth year of consecutive growth.



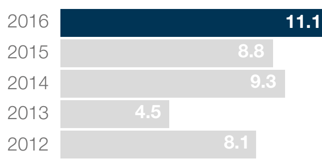
## 2. Cash generated from operations

This demonstrates how much cash is available for the Group to cover tax, financing and investments. It is measured as the operating profit of the Group, excluding non-cash items and including working capital movements.

The variable remuneration of the Executive Directors (annual bonus) is linked to this measure.

The Group has changed the presentation of the movement in invoice financing in the year which is reflected here.

Progress: £11.1m (2015: £8.8m).

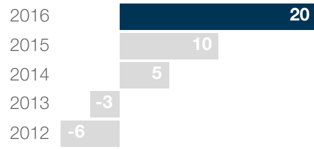


## 3. Net fee income growth

Sustainable growth in net fee income is needed to deliver long-term growth in net profit and earnings per share.

Target: Average annual growth of 10%.

Progress: 20% (10% in constant currency).

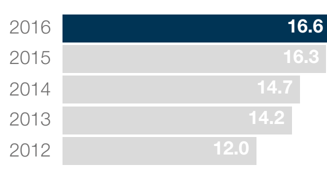


## 4. Conversion ratio

This demonstrates how efficiently the business is operating and how well the cost base is being managed. It is calculated as the percentage of adjusted operating profit out of net fee income.

Target: reach 20% ratio over five years to 2018.

Progress: 16.6%, being the fifth consecutive year of improvement.



## 5. Number of managers holding equity

This demonstrates how many senior managers around the Group are incentivised through equity ownership in their companies, a key element of our business model.

Target: All brands have management holding equity.

Progress: The total number of managers holding equity in their company is 57, up 15 on the prior year. Currently one brand has no management holding equity (2015: two).

**2016:**

57

(2015: 42)

## 6. Net fee income from professional and specialist roles

This demonstrates how much of the business is from professional and specialist positions.

Target: We want to maximise our exposure to professional and specialist job levels as these are generally higher margin sectors where specialist brands can offer added value services.

Progress: The ratio has been stable at 86%.

**2016:**

86%

(2015: 86%)

## 7. Staff productivity

This demonstrates the overall staff productivity, calculated as the ratio of net fee income generated per £1 of staff cost. The staff cost includes all sales and administrative staff, reflecting the true cost of operating the Group.

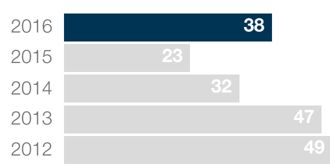
Progress: At 1.79 in 2016 we have seen an improvement over 2016.

## 8. Debt as a % of debtors

This demonstrates how leveraged the Group is. The Group needs a sound financial foundation for long-term sustainability and to be able to react to opportunities in the market.

Target: To reduce this to 25% by 2018.

Progress: By adding back the pilot bonds of £5.2m, this increased to 38% from 23% in the prior year, so is now above our target.



# Managing our risk

The risk management process followed by the Board is designed to improve the likelihood of delivering against strategy, to protect the interests of shareholders, to improve the quality of decision-making and to help safeguard our assets.

## 1. Political and social changes

### Impact on business

The Group's businesses are subject to legislation, regulations and changes in political sentiment in each of their locations. In particular, this impacts temporary recruitment which is regulated to protect the rights and treatment of temporary workers and in developing staffing markets where new regulations are introduced as the market develops. Any changes to labour regulations, tax laws or political views on the staffing industry could impact on the manner in which any business, or the Group as a whole, conducts its business and could therefore affect the financial performance of the Group. In some territories a recruitment licence is required. If local laws and regulations are not followed it could lead to sanctions being taken against the Company, including penalties, fines and licences being revoked.

Social changes impact how people search for jobs and where they are likely to live. Our businesses need to target the locations where people want to work. They need to be able to identify and communicate with candidates to ensure job vacancies are filled.

### Changes in risk profile in the year

**No change**

In the UK there is new legislation planned for 2017 which will increase costs for staffing agencies, in particular the Apprenticeship Levy (from April 2017) and changes to IR35 (for the public sector). The impact on the Group of these is expected to be small but demonstrates the continued trend of legislation impacting the staffing industry.

In the USA President Trump has said he plans to make changes to the Affordable Care Act. At this stage it is not clear what changes, if any, will actually be made, but any changes could negatively impact the Pharmaceutical Strategies business in 2017.

In Germany there is new legislation starting in April 2017 which will limit the length of time a worker can be a temporary worker to 18 months and new minimum wage regulations. This could have a short-term negative impact on the demand for temporary labour services or reduce margins for this work.

There are elections coming up in Germany and Chile in 2017. Also elections in France and the Netherlands could have an impact on the stability of the Euro zone.

### Actions taken to mitigate risk

The Group closely monitors the legal and regulatory environment in our markets, in particular where we operate temporary recruitment as this is an area with greater levels of regulations. The Group has membership of many local industry associations and we use professional advisers with good local knowledge and understanding of the relevant laws and labour regulations to ensure we are compliant in the territories in which we operate.

Our strategy is designed to minimise the negative impact from any political and social changes:

- Diversification and balance across sectors and regions helps to reduce the potential impact in any one area
- Focus on professional and specialist job levels reduces the exposure to changes in legislation, which are typically introduced to protect the most vulnerable and lowest paid workers
- Focus on key economic centres means we are targeting the main centres where candidates want to work

By developing leading brands in our sectors we are experts in our markets, helping us to react to changes in legislation, as well as making it easier to attract candidates because of our reputation and knowledge.

The risk management process consists of a Group risk register which is reviewed by the Board at each meeting with risks added, amended or removed as appropriate and actions updated. The Group register is prepared based on individual brand registers which are updated during the annual budget cycle and reviewed regularly during the year with senior management at brand-level Board meetings.

The Audit Committee reviews the control framework which helps to mitigate the risks. Group companies operate under a system of internal controls which includes, but is not limited to, a clear delegated authority to operational management, formal risk appraisals through the annual budget process, a comprehensive financial reporting system, investment evaluation and significant capital expenditure approval process and the self-certification by operating company management of compliance with controls and Group policies and procedures.

The following were identified as the principal risks that are most likely to affect business operations and hence the financial results and delivery of strategy.

## 2. Economic environment

The performance of staffing businesses has historically shown a strong correlation with the performance of the economies in which they operate. An economic slowdown will impact on the demand for recruitment services and could reduce the Group's profits.

**Increased**

The global economy overall is expected to grow in 2017. However, the economic recovery is not symmetrical across the world and there are always risks that threaten these forecasts.

In the UK the Government has announced it will invoke Article 50 in the first quarter of 2017, to start the process of leaving the EU. Whilst this has been taken into account in economic forecasts, the full impact is unknown and could lead to economic instability, especially in the short term.

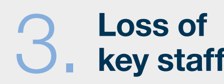
In the USA the election of President Trump could lead to protectionist trade policies which could impact on global economic growth.

The oil price at current levels continues to impact on the economies of the Middle East in particular.

The Group's strategy is designed to minimise the negative impact from an economic downturn in any one market, whilst acknowledging that a significant economic downturn will impact all businesses:

- Sector and geographic diversification
  This was improved in the year by investments in Rishworth Aviation and ConSol Partners
- Develop core brands
  By creating more robust businesses they should be able to better withstand any economic downturn

We focus on temporary recruitment as this is typically less volatile than permanent recruitment during the economic cycles. Overall our exposure to permanent recruitment has reduced in the year which reduces this risk.



## 3. Loss of key staff

The Group's success relies on recruiting and retaining senior management and other key employees.

The loss of a key staff member without a suitable successor in place could lead to a reduction in trading and profitability. The choice of the wrong manager for a business could lead to sub-optimal decision-making and losing ground to competitors or failing to operate procedures properly and so being liable to fines or penalties.

**Reduced**

We have increased the number of management holding equity in the period.

We have invested in two new brands in the last year.

There have been a number of changes in management during 2016 which we believe will help their brands to develop positively in 2017.

The Group's business model is based on management equity, so incentivising key management through equity ownership and tying them to the business for the long term. We monitor the number of managers with equity in their own businesses and work with existing shareholders to identify key staff to purchase equity in the future.

Currently there is one brand in the Group with no management shareholder (2015: two brands).

# Managing our risk

## 4. Investments poorly executed

### Impact on business

There is a risk of losing value from poorly executed investments. If an investment is overvalued the Group will pay too much for it and risks a lower return in the future from profits being generated. A poorly executed integration into the Group could lead to lost value or lost opportunities.

Organic investments in new offices will generally be loss making in the first 1–2 years so this needs to be carefully managed to minimise the costs to the business. New office openings increase the risk of lower returns than planned if costs are not managed well.

### Changes in risk profile in the year

Increased

We have made two external investments in 2016 and continue to follow an 'invest and develop' strategy to grow the Group.

In 2017 we plan to open a new office in Vietnam with the Monroe Consulting brand.

We continue to look for new investment opportunities to benefit the Group.

### Actions taken to mitigate risk

All investments, whether organic or external, must have Board approval. Investments must have a clearly defined integration plan, with responsibility for implementation of the plan with the Executive Directors. Due diligence findings need to be acted upon to minimise any risks identified pre-acquisition. Any funding requirements must be taken into account for Group cash flow forecasts to ensure sufficient and appropriate funding is in place.

When investing in organic growth or bolt-on acquisitions for existing brands it is key that local management are fully involved and driving the process to ensure the best chance of success.

With any investment activity the fit of the people is the most important factor. This is especially important in our Group where there is a highly decentralised structure. This is the first criteria that must be met before any investment activity is pursued.

## 5. Financial

The Group is reliant on debt financing to fund the working capital of the business.

By operating in 19 countries the Group is exposed to movements in foreign currency rates. The Group reports in Sterling but has operations in countries with different currencies. Negative movements in exchange rates would impact the reporting of Group profitability and may devalue the cash and assets around the Group.

If the Group was unable to secure funding at current levels it could be forced to dispose of parts of the business to repay the existing debt. An increase in interest rates will increase costs and so reduce the profit in the business.

**Increased**

In 2016 we have benefited from movements in currency rates to translate results into our reporting currency, however, we have seen high levels of currency volatility and this is expected to continue in 2017.

The Group's total debt has increased during 2016 following external investments made and is now above our target rate of 25% of trade receivables. We intend to reduce this over 2017 but we are now more exposed to changes in interest rates. The US Federal Reserve started to raise interest rates at the end of 2016. During March 2017, The US Federal Reserve has raised interest rates by 25 basis points.

The Group finances its operations by a combination of cash reserves from retained profit, bank borrowings and issuing new equity. Treasury management is led by the Group finance team, which manages and monitors external and internal funding requirements and maintains the key Group banking relationships.

The Group is exposed to movements in interest rates for its primary facilities. The Group does not currently hedge this exposure but monitors movements in the relevant interest rates to be able to react if the rates move adversely.

Approximately two thirds of the Group's business is transacted outside of the UK so we are exposed to movements in exchange rates. The Group does not currently hedge translation risk as there is to some degree a natural hedge from our strategy of being diversified by region. Intra-Group balances are hedged, where possible, using cash or overdraft balances to act as a natural currency hedge, for US Dollar, Euro, Japanese Yen, Singapore Dollar and Australian Dollar.

A limited number of forward contracts have been used to hedge trading currency risks for IMS and ConSol Partners.

## 6. IT and cyber related

The risk of cyber-attacks has increased in the wider business environment, so there are threats from hackers, viruses or sensitive information being accessed without authorisation.

A successful breach could lead to the loss of sensitive data on clients or candidates, damage to our brand reputation, business disruption or the loss of commercially sensitive information.

With increasingly stringent regulatory environments around data protection there is an ongoing risk of failing to comply with regulations, leading to fines and damage to brand reputation.

**Increased**

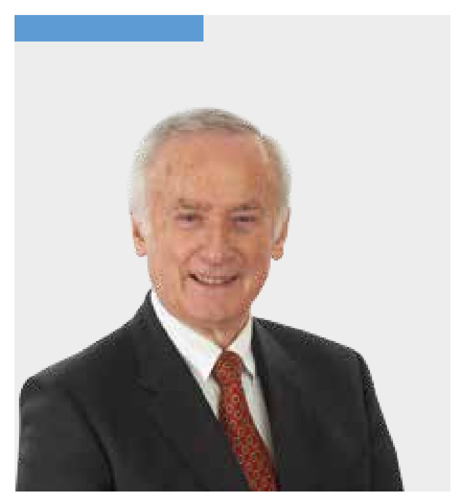
There have been a number of high profile cyber-attacks reported in 2016. The threat from this is always changing and as we grow our brands in size, they are more likely to be a target for hackers and criminals.

New legislation is proposed to be introduced in May 2018 (General Data Protection Regulation), which introduces new rights for individuals and promotes good data governance and accountability amongst organisations. This is likely to lead to changes in how the Group companies operate and there are significant fines for non-compliance.

We have policies in place to safeguard assets and data within the Group. We also use external advisers to monitor the security of our Group websites and systems to meet a minimum standard of security and we continue to monitor ongoing cyber-security threats.

We are reviewing the new GDPR legislation to ensure that all Group companies are compliant by May 2018.

# Our team



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## 1.

### Tony Martin
**Chairman**

Appointed: July 2004
Committee Membership: None

Skills and experience
Tony has over 30 years' experience of running international specialist staffing companies. He served as Chairman and CEO of Select Appointments (Holdings) Plc from 1992 to 1999 when he became Vice Chairman and member of the Board of Management of Vedior NV, the world's third largest staffing services group. In August 2000 he assumed the role of Chairman and CEO, which he served until his retirement in February 2004. Tony held the position of Executive Chairman at Corporate Services Group until standing down in September 2007.

Other key external appointments: None.

## 2.

### Joost Kreulen
**Chief Executive Officer**

Appointed: January 2012
Committee Membership: None

Skills and experience
Joost has 29 years' experience of working in the staffing sector. He has been with Empresaria since 2009. He was initially responsible for its Asian operations and more recently also for a number of its UK based businesses. He was appointed Chief Operating Officer and Chief Executive Officer designate on 7 September 2011. Prior to joining Empresaria, Joost had spent 20 years working in various roles for businesses which now form part of Randstad N.V., most recently as head of specialist staffing operations in the Netherlands.

Other key external appointments: None.

## 3.

### Spencer Wreford
**Group Finance Director**

Appointed: May 2010
Committee Membership: None

Skills and experience
Spencer has nearly 15 years' experience in senior finance roles, particularly with international businesses in the services sector. He joined Empresaria from BPP Group, where he was the Finance Director of the BPP Professional Education division, a provider of international professional training. Prior to this he spent eight years at ITE Group Plc, the international conference and exhibition organising group, as Deputy Finance Director, during which time he also spent six months as Acting Group Finance Director. Spencer is a member of the Institute of Chartered Accountants of England and Wales, qualifying with Arthur Andersen.

Other key external appointments: None.

## 4.

### Zach Miles
**Non-Executive Director**

Appointed: October 2008
Committee Membership:
Audit Committee (Chairman),
Remuneration Committee,
Nomination Committee

Skills and experience
Zach has 29 years' experience working in the staffing sector, as a Finance Director, CEO and Chairman. Before joining Empresaria Zach held the position of Chairman and Chief Executive Officer of Vedior N.V. He was a member of the Board of Management from 1999, and Chairman since February 2004. Before joining Vedior, Zach was CFO and a member of the Board of Directors of Select Appointments (Holdings) Plc. His career in the recruitment industry began in 1988. He was formerly a partner in the international accountancy firm Arthur Andersen and is a qualified Chartered Accountant. Together with Penny Freer, Zach performs the role of Senior Independent Director.

Other key external appointments:
Chairman of the Board of Trustees of The Abbeyfield Kent Society.

## 5.

### Penny Freer
**Non-Executive Director**

Appointed: December 2005
Committee Membership:
Remuneration Committee (Chairman),
Nomination Committee (Chairman),
Audit Committee

Skills and experience
Penny has worked in investment banking for over 25 years. She is a partner of London Bridge Capital, a corporate finance advisory firm. Until 2004 Penny was Head of Equity Capital Markets at Robert W Baird and from 2004 to 2005, Deputy Chairman of Robert W Baird Limited. Prior to this she was Head of Small/Mid Cap Equities for Credit Lyonnais. Together with Zach Miles, Penny performs the role of Senior Independent Director.

Other key external appointments:
Senior Independent Director, Advanced Medical Solutions plc; Non-Executive Director, Crown Place VCT plc; Non-Executive Director, Centric Health.

# CONSOLIDATED INCOME STATEMENT

| | 2016 £m | 2015 £m |
|---|---|---|
| **Continuing operations** | | |
| **Revenue** | **270.4** | 187.3 |
| Cost of sales | **(211.4)** | (138.1) |
| **Net fee income** | **59.0** | 49.2 |
| Administrative costs | **(49.2)** | (41.2) |
| **Adjusted operating profit*** | **9.8** | 8.0 |
| Exceptional items | **–** | – |
| Fair value on acquisition of non-controlling shares | **(0.2)** | – |
| Intangible amortisation | **(1.1)** | (0.4) |
| **Operating profit** | **8.5** | 7.6 |
| Finance income | **0.1** | 0.1 |
| Finance costs | **(0.7)** | (0.6) |
| **Profit before tax** | **7.9** | 7.1 |
| Tax | **(3.5)** | (2.6) |
| **Profit for the year** | **4.4** | 4.5 |
| **Attributable to:** | | |
| Equity holders of the parent | **4.8** | 4.4 |
| Non-controlling interest | **(0.4)** | 0.1 |
| | **4.4** | 4.5 |

* 'Adjusted operating profit' is stated before exceptional items, gain or loss on business disposal, intangible amortisation and fair value on acquisition of non-controlling shares

| | | |
|---|---|---|
| **From continuing operations** | | |
| **Earnings per share:** | | |
| Basic | **9.6** | 9.6 |
| Diluted | **9.3** | 9.3 |
| **Earnings per share (adjusted):** | | |
| Basic | **11.7** | 10.2 |
| Diluted | **11.3** | 9.9 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2016 £m | 2015 £m |
|---|---|---|
| **Items that may be reclassified subsequently to income statement:** | | |
| Exchange differences on translation of foreign operations | 5.1 | (0.5) |
| **Items that will not be reclassified to income statement:** | | |
| Exchange differences on translation of foreign operations of non-controlling interest | 0.5 | (0.2) |
| **Net income/(expense) recognised directly in equity** | 5.6 | (0.7) |
| **Profit for the year** | 4.4 | 4.5 |
| **Total comprehensive income for the year** | 10.0 | 3.8 |
| | | |
| **Attributable to:** | | |
| Equity holders of the parent | 9.9 | 3.9 |
| Non-controlling interest | 0.1 | (0.1) |
| | 10.0 | 3.8 |

# CONSOLIDATED BALANCE SHEET

| | 2016 £m | 2015 £m |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **1.6** | 1.5 |
| Goodwill | **36.0** | 25.2 |
| Other intangible assets | **20.8** | 7.3 |
| Deferred tax assets | **1.0** | 0.9 |
| | **59.4** | 34.9 |
| **Current assets** | | |
| Trade and other receivables | **50.2** | 35.9 |
| Cash and cash equivalents | **18.0** | 7.7 |
| | **68.2** | 43.6 |
| **Total assets** | **127.6** | 78.5 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | **44.9** | 24.0 |
| Current tax liabilities | **3.1** | 3.7 |
| Borrowings | **13.4** | 9.9 |
| | **61.4** | 37.6 |
| **Non-current liabilities** | | |
| Borrowings | **15.1** | 5.1 |
| Other creditors | **–** | 1.0 |
| Deferred tax liabilities | **4.4** | 1.1 |
| **Total non-current liabilities** | **19.5** | 7.2 |
| **Total liabilities** | **80.9** | 44.8 |
| **Net assets** | **46.7** | 33.7 |
| **EQUITY** | | |
| Share capital | **2.4** | 2.4 |
| Share premium account | **22.4** | 22.4 |
| Merger reserve | **0.9** | 0.9 |
| Retranslation reserve | **6.1** | 1.0 |
| Equity reserve | **(7.3)** | (7.2) |
| Other reserves | **(0.4)** | (0.6) |
| Retained earnings | **16.2** | 11.9 |
| **Equity attributable to owners of the Company** | **40.3** | 30.8 |
| **Non-controlling interest** | **6.4** | 2.9 |
| **Total equity** | **46.7** | 33.7 |

These financial statements of Empresaria Group plc were approved by the Board of Directors and authorised for issue on 21 March 2017.

Signed on behalf of the Board of Directors

**Joost Kreulen**
Director

**Spencer Wreford**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital £m | Share premium account £m | Merger reserve £m | Retranslation reserve £m | Equity reserve £m | Other reserves £m | Retained earnings £m | Non–controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2014** | 2.2 | 19.4 | 0.9 | 1.8 | (7.1) | (1.1) | 7.8 | 3.2 | 27.1 |
| Profit for the year | – | – | – | – | – | – | 4.4 | 0.1 | 4.5 |
| Dividend | – | – | – | – | – | – | (0.3) | – | (0.3) |
| Shares issued (note 21) | 0.2 | 3.1 | – | – | – | – | – | – | 3.3 |
| Expenses of issue of equity shares | – | (0.1) | – | – | – | – | – | – | (0.1) |
| Currency translation differences | – | – | – | (0.8) | – | 0.3 | – | (0.2) | (0.7) |
| Non-controlling interest acquired and other movements during the year | – | – | – | – | (0.1) | – | – | (0.2) | (0.3) |
| Share based payment | – | – | – | – | – | 0.2 | – | – | 0.2 |
| **Balance at 31 December 2015** | 2.4 | 22.4 | 0.9 | 1.0 | (7.2) | (0.6) | 11.9 | 2.9 | 33.7 |
| Profit for the year | – | – | – | – | – | – | 4.8 | (0.4) | 4.4 |
| Dividend | – | – | – | – | – | – | (0.5) | – | (0.5) |
| Currency translation differences | – | – | – | 5.1 | – | – | – | 0.5 | 5.6 |
| Share of non-controlling interest in intangibles related balances on business acquisition | – | – | – | – | – | – | – | 2.6 | 2.6 |
| Share of non-controlling interest in other net assets on business combination | – | – | – | – | – | – | – | 1.0 | 1.0 |
| Non-controlling interest acquired and other movements during the year | – | – | – | – | (0.1) | – | – | (0.2) | (0.3) |
| Share based payment | – | – | – | – | – | 0.2 | – | – | 0.2 |
| **Balance at 31 December 2016** | **2.4** | **22.4** | **0.9** | **6.1** | **(7.3)** | **(0.4)** | **16.2** | **6.4** | **46.7** |

Equity comprises the following:
- ‘Share capital’ represents the nominal value of equity shares
- ‘Share premium account’ represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- ‘Merger reserve’ relates to premiums arising on shares issued subject to the provisions of section 612 ‘Merger relief’ of the Companies Act 2006
- ‘Retranslation reserve’ represents the exchange differences arising from the translation of the financial statements of foreign subsidiaries
- ‘Equity reserve’ represents movement in equity due to acquisition of non-controlling interests under IFRS 3 Business Combinations
- ‘Other reserves’ represents the share based payment reserve of £0.8m (2015: £0.6m) and exchange differences on inter-company long-term receivables amounting to (£1.2m) (2015: (£1.2m)), which are treated as a net investment in foreign operations
- ‘Retained earnings’ represents accumulated profits less distributions and income/expense recognised in equity from incorporation.
- ‘Non-controlling interest’ represents equity in a subsidiary not attributable, directly or indirectly, to the Group

# CONSOLIDATED CASH FLOW STATEMENT

| | 2016 £m | 2015 Restated £m |
|---|---|---|
| Profit for the year | 4.4 | 4.5 |
| Adjustments for: | | |
| Depreciation and software amortisation | 0.9 | 0.7 |
| Intangible amortisation (identified as per IFRS 3 'Business Combinations') | 1.1 | 0.4 |
| Taxation expense recognised in income statement | 3.5 | 2.6 |
| Exceptional items | – | – |
| Cash paid for exceptional items | – | (0.5) |
| Share based payments | 0.2 | 0.2 |
| Net finance charge | 0.6 | 0.5 |
| | 10.7 | 8.4 |
| Increase in trade receivables | (1.2) | (1.1) |
| Increase in trade payables | 1.6 | 1.5 |
| Cash generated from operations | 11.1 | 8.8 |
| Interest paid | (0.8) | (0.5) |
| Income taxes paid | (4.7) | (1.8) |
| **Net cash from operating activities** | 5.6 | 6.5 |
| **Cash flows from investing activities** | | |
| Cash acquired with business acquisitions | 7.9 | 0.1 |
| Overdraft acquired with business | – | (0.7) |
| Consideration paid for business acquisitions | (14.3) | (5.3) |
| Consideration received for business disposals | 0.1 | 0.1 |
| Purchase of property, plant and equipment and software | (0.8) | (0.9) |
| Finance income | 0.1 | 0.1 |
| **Net cash used in investing activities** | (7.0) | (6.6) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of share capital | – | 3.2 |
| Further shares acquired in existing subsidiaries | (0.2) | (0.4) |
| Increase/(decrease) in borrowings | 0.1 | (0.1) |
| Proceeds from bank loan | 11.3 | 5.3 |
| Repayment of bank and other loan | (1.2) | (6.2) |
| Increase/(decrease) in invoice discounting | 0.8 | (1.2) |
| Dividends paid to shareholders | (0.5) | (0.3) |
| Dividends paid to non-controlling interest in subsidiaries | (0.2) | (0.1) |
| **Net cash from financing activities** | 10.1 | 0.2 |
| **Net increase in cash and cash equivalents** | 8.7 | 0.1 |
| Effect of foreign exchange rate changes | 1.6 | (0.2) |
| Cash and cash equivalents at beginning of the year | 7.7 | 7.8 |
| **Cash and cash equivalents at end of the year** | 18.0 | 7.7 |

See Notes for details on the restatement of the 2015 Cash flow statement.

# BASIS OF PREPARATION AND GENERAL INFORMATION

The financial information has been abridged from the audited financial information for the year ended 31 December 2016.

The financial information in this document does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The Auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their reports and did not contain statements under s498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

Accounting policies have been consistently applied throughout 2015 and 2016 except as detailed below with a change to the presentation of the movement of invoice financing in the Cashflow Statement.

Whilst the financial information included in this report has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS'), this report does not itself contain sufficient financial information to comply with IFRS. The Group has published full financial statements that comply with IFRS on its website, www.empresaria.com. Alternatively you may request a full printed copy to be sent to you by writing to the Company Secretary at:
Empresaria Group plc
Old Church House
Sandy Lane
Crawley
Crawley Down
West Sussex
RH10 4HS

# NOTES

### Restatement of prior year Cash flow statement presentation

Following a review of the Group's accounting policy, the presentation of the movement in invoice financing in the cash flow statement has been amended with a restatement of the prior year presentation, to provide shareholders with a clearer understanding of the operating cash flows of the Group. Under the revised accounting treatment this is now presented as part of 'Cash flow from financing activities' rather than 'Cash flow from operating activities'.

**The impact of the restatement is summarised below**

In Cash flow statement

| Year to 31 December 2015 | Cash generated from operations | Net cash from operating activities | Net cash from financing activities | Movement in net cash and cash equivalents |
|---|---|---|---|---|
| Previously disclosed: Increase/(decrease) | 7.6 | 5.3 | 1.4 | 0.1 |
| Adjustment in invoice financing presentation | 1.2 | 1.2 | (1.2) | – |
| Restated: Increase/(decrease) | 8.8 | 6.5 | 0.2 | 0.1 |

There was no impact of the above changes on the consolidated income statement, the consolidated balance sheet and earning per share and therefore no third balance sheet is required.

# OFFICERS AND PROFESSIONAL ADVISERS

### Directors
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Spencer Wreford
Tony Martin
Penny Freer
Zach Miles

### Secretary
James Chapman

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### Company registration number
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West & Wales Corporate Banking
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