

# Pareto Law Limited

## Strategic Report For the Year Ended 31 December 2020

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### Introduction

The directors present their strategic report on the company for the year ended 31 December 2020.

### Principal activity

The company's principal activity continues to be that of a sales solution provider incorporating permanent and contract placements. The company also provides sales development, management training and Government-backed apprenticeships.

### Review of the business

As shown in the company's statement of comprehensive income on page 13, the company's revenue has decreased from 2019. The company report an operating loss of £1,370,000 (2019 – profit of £1,504,000) and a loss before taxation of £1,592,000 (2019 – profit of £1,268,000). The 2020 results were negatively impacted by the Covid-19 pandemic.

### Position of the business

The company had net assets of £1,174,000 (2019 - £2,432,000). The movement is principally the result of the loss after tax for the financial year. There were no dividends paid in the year (2019 - £1,041,000).

### Key performance indicators

The company's key financial indicators during the year were as follows.

	2020	2019
Revenue (£'000)	23,773	26,873
(Loss) / profit before taxation (£'000)	(1,592)	1,268
(Loss) / profit before taxation as a % of revenue	(7)	5

Please see above 'Position of the business' and 'Review of the business' sections for further analysis of year-on-year movements.

### Principal risks and uncertainties

The company reports quarterly to Randstad NV on all areas of risk. The company's operations expose it to a variety of risks. The company's management has examined all major risks to its business and considers the main risk to be that of the regulatory changes within the recruitment industry and how this could affect the future profitability of the company.

As the economy looks to recover from both the short-term impact of Covid-19, and businesses adapt to potential medium and long term impacts of the changes in working practices as well as economic shifts, recruitment companies need to remain agile and diversified in order to take advantage of future opportunities. Client and candidate hesitancy could remain in the short term. Technological disruption continues to threaten traditional staffing business models, and may accelerate as pressures on costs increase. Innovative business models continue to emerge. Short-term uncertainty related to Brexit has reduced, but the longer term impacts on the economy remain uncertain. An increased focus on engagement models for temporary workers, in particular the gig economy, increases the potential for legal, tax and regulatory changes for the recruitment sector in the medium term, albeit focused on temporary recruitment. Such changes are likely to bring with them an increased compliance burden (at least initially), and potentially a change in established client and candidate engagement practices (as seen with recent IR35 changes). These do however also provide opportunities for compliant staffing companies who are able to adapt quickly to changes in the market.

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## Strategic Report For the Year Ended 31 December 2020

### Principal risks and uncertainties (continued)

Description	Mitigating Actions	Movement
<p><u>Covid-19</u> The global Coronavirus pandemic during H1 2020-21 has caused material disruption to the UK economy, and in particular the recruitment and staffing demands from clients. The return of client and candidate confidence, both critical for the recruitment sector, will be dependent on a steady return to normality, and the avoidance of further waves of the virus or national lockdowns.</p>	<p>Having managed costs prudently in 2020, and aligned sales efforts to areas of anticipated recovery/growth, we are well placed to mitigate against the impacts and take advantage of the subsequent recovery. Experience from 2020 will help should there be any further resurgence of the virus.</p>	<p>Reduced risk</p>
<p><u>Technological Disruption</u> New business models continue to emerge that threaten to disrupt parts of the client and candidate match process. Emerging models threaten specific parts of the process e.g. candidate screening rather than presenting a complete risk of disintermediation.</p>	<p>We continue to adapt our business models to incorporate appropriate technological solutions to enhance value to clients and candidates.</p>	<p>Unchanged risk</p>
<p><u>Key Personnel</u> The two Pareto founders have recently left the business. They were instrumental in the growth and success of the business. Senior management change, particularly with founders, carries with it inherent risks around succession and staff morale.</p>	<p>Pareto has been part of the Randstad group for many years, so the risks are not as pronounced as if this were a new acquisition. The Randstad senior management will work closely with Pareto to ensure a smooth transition and initiatives to minimise the impact on the business.</p>	<p>New risk</p>
<p><u>Regulatory change</u> Recent years have seen significant regulatory change both in terms of "soft" regulation, such as Gender Pay Gap Reporting or "hard" regulation such as that relating to IR35. In many cases, regulation is influenced by traditional employment models and can often be inappropriate for modern, flexible employment models requiring significant internal commitment to ensure continued compliance. High-profile legal cases around employment status and worker rights increase the likelihood of further legal and regulatory change.</p>	<p>We continue to work both directly and indirectly with industry bodies to influence the shape of future legislation and ensure that it is appropriate for the modern workplace. We have retained our focus on internal governance to ensure compliance to these requirements. The establishment of a Strategic Project Management Office in 2020 within Randstad UK has provided a robust project management framework for implementing regulatory changes consistently across all UK operating companies. The Pareto business model means it is less exposed to regulatory change in the temporary workforce sector than the rest of the Randstad UK group.</p>	<p>Unchanged risk</p>

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## Strategic Report (continued) For the Year Ended 31 December 2020

### Principal risks and uncertainties (continued)

Description	Mitigating Actions	Movements
<u>Cyber threats</u> Cyber attacks pose an increasing threat to all businesses, and 2020 saw an increase in incidents across the board, including in the recruitment industry. The Randstad group was among a number of high profile businesses which were targeted by cyber attacks in 2020.	Randstad globally has a number of staff experienced with both emerging trends in cyber security, and responding to cyber incidents. We run campaigns designed to highlight cyber threats to our staff, and have reviewed our business continuity planning in the UK to ensure suitable resilience in the event of a cyber incident	New risk
	Pareto has been part of the Randstad group for many years, so the risks are not as pronounced as if this were a new acquisition. The Randstad senior management will work closely with Pareto to ensure a smooth transition and initiatives to minimise the impact on the business.	New risk

### Going concern

The company is a subsidiary of Randstad Group UK, which is the parent company of the UK subgroup of Randstad NV, the ultimate parent company.

The UK subgroup ("Randstad UK") has intercompany financing in place, which principally comprises the following:

- A long term intercompany loan, for an amount of £217.8m, repayable in January 2023.
- An intercompany overdraft facility, for an amount of £65.5m, that is provided by the wider Randstad NV group, under a group wide cash pooling arrangement, which is used to finance Randstad UK's day-to-day trading activities and which the Company participates in; this is headed by Randstad Group UK.

As at August 2021, the UK subgroup had a substantial level of available headroom of £55.5m.

The directors of Randstad Group UK have prepared a forecast for the period ending 30 September 2022, for the wider Randstad Group UK sub-group, which shows that the UK sub-group will remain within its current intercompany overdraft facilities throughout the forecast period. This includes a number of assumptions, including an improvement in the trading performance, from FY20 actuals, as the business recovers from the COVID-19 pandemic, although the directors do not anticipate a return to pre-COVID levels in FY22.

The nature of Randstad UK's business is such that, during periods of revenue growth, there is an adverse impact on the group's working capital, which is required to fund that growth, whereby cash is required to fund the resultant increase in debtors. Conversely, if revenues are declining, then the working capital unwinds, resulting in cash being released.

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## Strategic Report (continued) For the Year Ended 31 December 2020

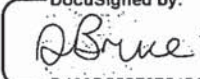
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### Going concern (continued)

Given the ongoing macroeconomic uncertainties, in relation to both COVID-19 and Brexit, the directors have carried out what they consider to be reasonably possible downside scenarios, including: a reduction in revenues and a deterioration in debtor days. Randstad UK maintains position headroom under each of these scenarios.

Taking all of the above into account, the directors do not consider that there are any material uncertainties, in relation to the company's ability to continue as a going concern, and are satisfied that the company will continue to meet its obligations, as they fall due, for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they have prepared these financial statements on a going concern basis.

This report was approved by the board and signed on its behalf.

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**D Bruce**  
Director

Date: 30<sup>th</sup> September 2021