Pareto Law Limited

Strategic Report
For the Year Ended 31 December 2019

Introduction

The directors present their strategic report on the company for the year ended 31 December 2019.

Principal activities

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 10, the company's revenue has increased from 2018. The company achieved an operating profit of £1,504,000 (2018 - £1,465,000) and a profit before taxation of £1,268,000 (2018 - £1,305,000). The increase in operating profit has not increased proportionately with revenue due to increased costs associated with the staffing growth within the apprenticeships division.

Position of the business

The company had net assets of £2,432,000 (2018 - £2,476,000) following the payment of a dividend in the year, for an amount of £1,041,000 (2018 - £1,485,000).

Key performance indicators

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

	2019	**2018**
Revenue (£'000)	**26,873**	24,011
Profit before taxation (£'000)	**1,268**	1,305
Profit before taxation as a % of revenue	**5**	5

Principal risks and uncertainties

The global recession which appears inevitable in the wake of the Covid-19 pandemic poses an economy-wide challenge to the vast majority of UK businesses. This in turn will cause businesses, including Pareto Law Limited, to look at workforce costs, structures and locations, which present opportunities as well as threats. Uncertainty from Brexit and the form it may take impacts client demand and long-term may lead to candidate shortage.

A description of the key risks, and mitigating action taken to protect the company against them are as follows:

<u>Covid-19</u>

The global Coronavirus pandemic during H1 2020 has caused material disruption to the UK economy, and in particular the recruitment and staffing demands from clients. As this is a live and evolving situation, the short, medium and long term impacts are difficult to quantify, and the ability of the UK to recover quickly from the H1 disruption will depend on factors beyond our control such as the roll-out of a vaccine to minimise the ongoing spread of the virus.

During 2020, we have taken advantage of the Coronavirus Job Retention Scheme for corporate staff and will look to manage headcount costs accordingly in response to business needs and opportunities.

Principal risks and uncertainties (continued)

Brexit

The company's exposure to risk from Brexit is driven principally by its effect on client demand and macroeconomic shift. Longer term, the impacts on migrant labour and the proposed immigration model could have a longer term effect on candidate availability.

Diversification of services provided to our clients to include a broader HR offering protects against shifts in client demand.

Pace of regulatory change

The pace of regulatory change and the cost of compliance presents an on-going challenge for the organisation, particularly in the area of apprenticeships.

Having developed a strong leadership team within our apprenticeships division, we feel well equipped to manage any future regulatory changes.

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 November 2020, the UK subgroup had a substantial level of available headroom, whereby it had positive cash of £14.4m and had not drawn on the available overdraft facility, giving headroom of £79.9m.

The directors of Randstad Group UK have prepared a forecast for the period ending 31 December 2021, 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 until 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.

Given the ongoing uncertainties, particularly as a result of Covid-19, but also because of Brexit, management has carried out what it considers to be reasonably possible downside scenarios, including: a 20% reduction in revenues, which actually leads to an increase in the level of headroom; a 10% increase in revenues; and a 10% deterioration in debtor days. Randstad UK maintained positive headroom under all these scenarios.

Going concern (continued)

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.

D Bruce
Director

Date:1 8th December 2020