

# Preliminary Results

## Year Ended 30 June 2004

# Bob Lawson

Chairman

## A year of transformation and growth

---

- Excellent performance from Specialist Recruitment
  - Operating profit before goodwill amortisation of £133.4m
  - Increase of 17% on a headline basis and 12% on a like-for-like basis\*
  - Growth across all three regions and in all major activities

\* Before acquisitions and at constant exchange rates

## A year of transformation and growth

---

- Excellent performance from Specialist Recruitment
- Group transformation to be completed by demerger of DX Services
  - Create an independent publicly listed company
  - Timetable
    - Analyst and investor presentation Thursday 9 September
    - Listing Particulars and Circular expected to be posted within a month
    - Listing targeted for early November

## A year of transformation and growth

---

- Excellent performance from Specialist Recruitment
- Group transformation to be completed by demerger of DX Services
- Surplus cash of at least £200m to be returned to shareholders
  - To be executed by on-market share buy-back
  - Commencing following demerger of DX Services

## Agenda

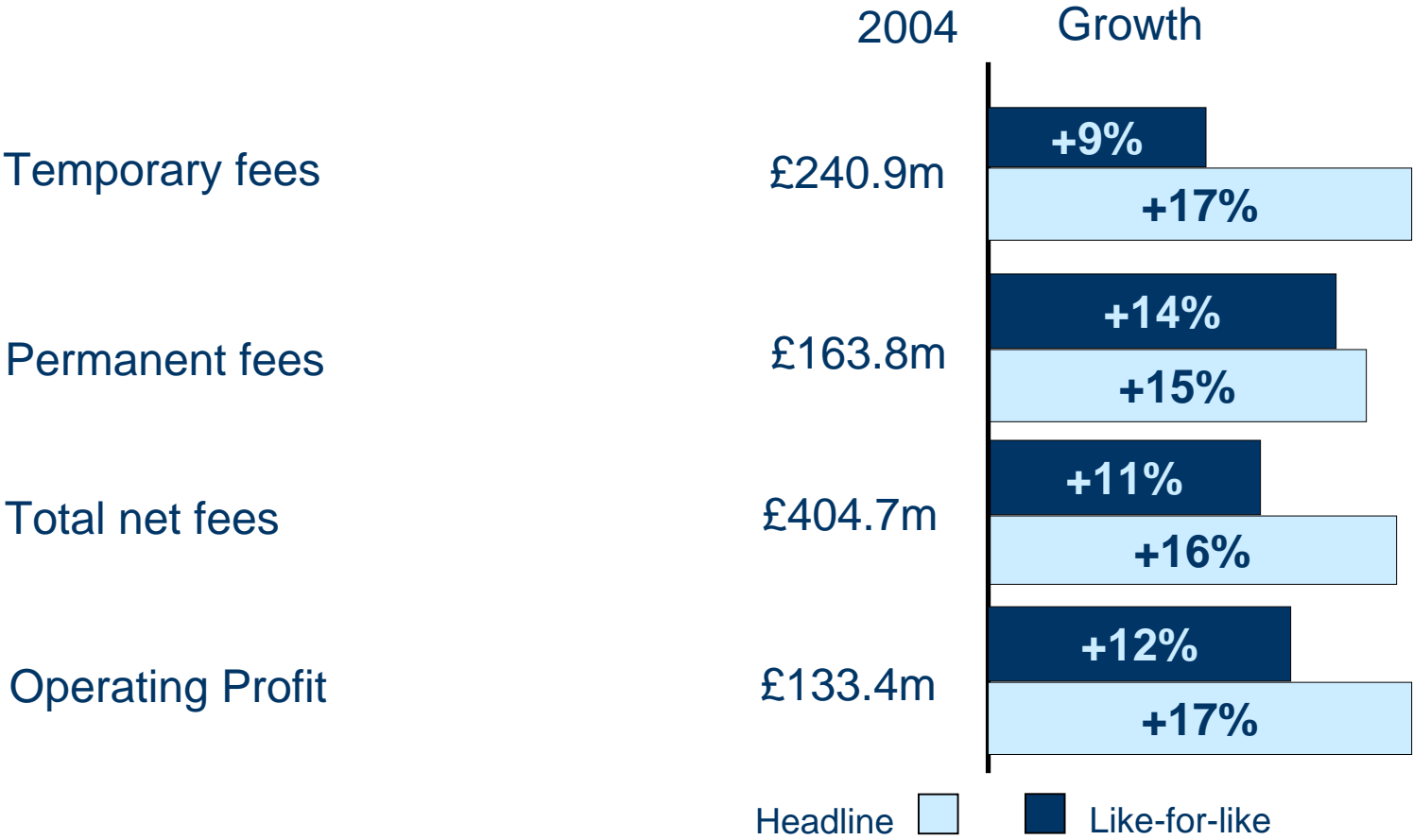
---

- Specialist Recruitment  
Denis Waxman  
Group Chief Executive
- DX Services  
Peter Brougham  
DX Services Chief Executive
- Financial Review  
John Martin  
Group Finance Director
- Specialist Recruitment outlook  
Denis Waxman  
Group Chief Executive
- Q&A

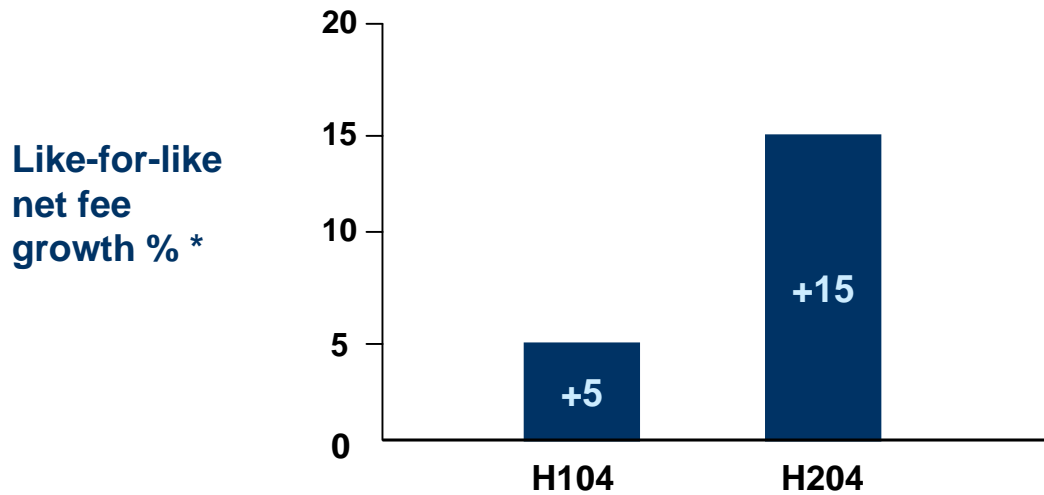
# Denis Waxman

Group Chief Executive

## Specialist Recruitment – a year of achievement



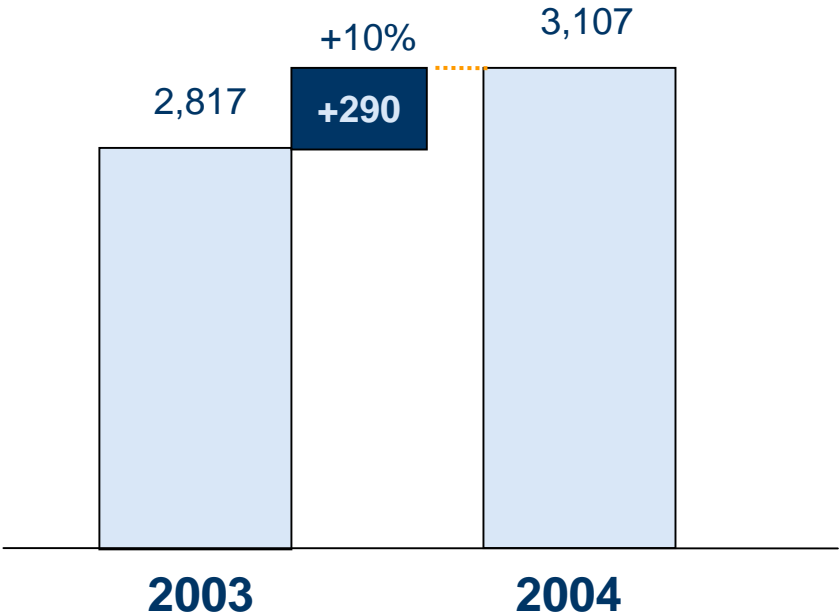
## Acceleration in second half



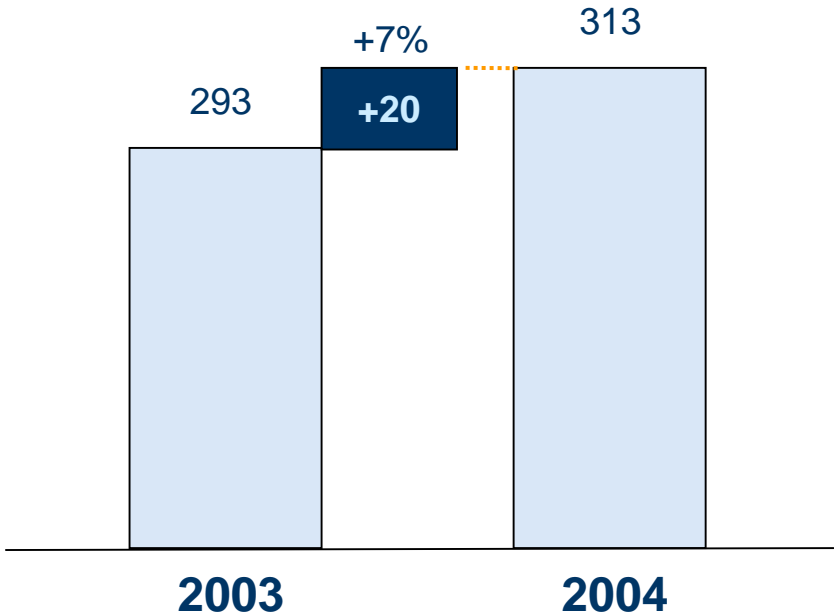
- Like-for-like net fee growth across all three regions and all major activities

## Continued investment for growth

### Recruitment consultants



### Offices



## Achieved in a year of transformation for Hays

---

- Maintained focus on business
- Established new head office
- Rolled-out employee co-investment plan
- Launched new brand strategy 1 July

**HAYS**

## **A market leader in Specialist Recruitment**

---

**HAYS**

## Over 40 specialist business units

- We are specialist
- Focus of consultants
- Increasing differentiation
- Increasing penetration
- Breadth of service and revenues
- Leader in our markets



## Specialist Recruitment - 2004 regional analysis

£m	Net Fees	Operating Profit*
Continental Europe	40.9	2.6
Australia & New Zealand	48.3	19.8
United Kingdom	315.5	111.0
	<u>404.7</u>	<u>133.4</u>

\* Before goodwill amortisation

## Continental Europe

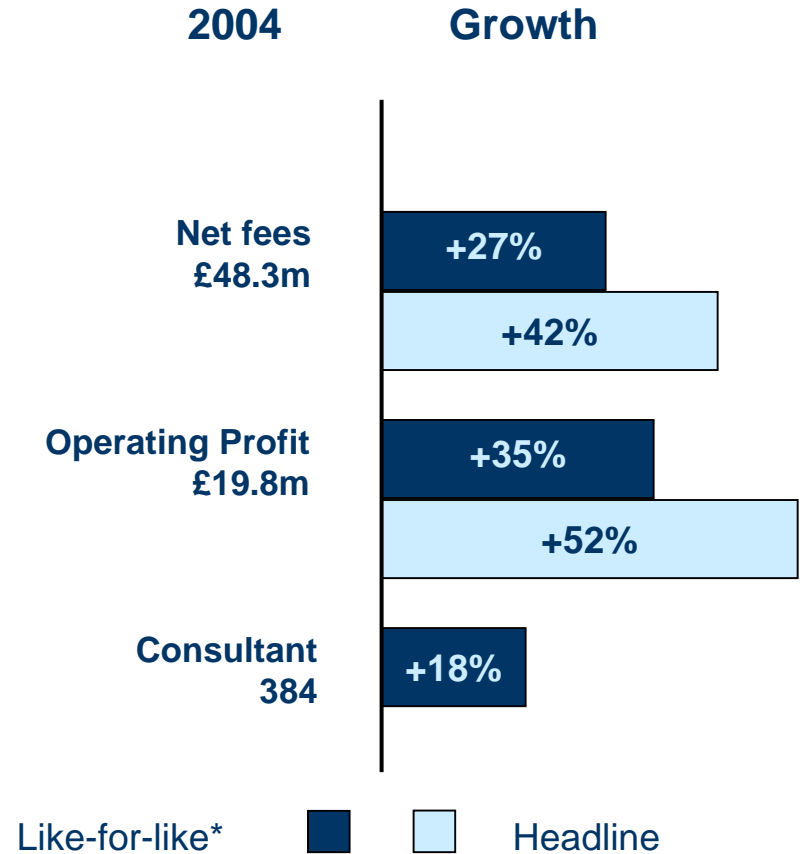
- Strong performance
- Improving market conditions
- Germany exceeded expectations
- Organic starts performed well
- Continuing to invest



\* Before acquisitions and gains on foreign exchange

## Australia & New Zealand

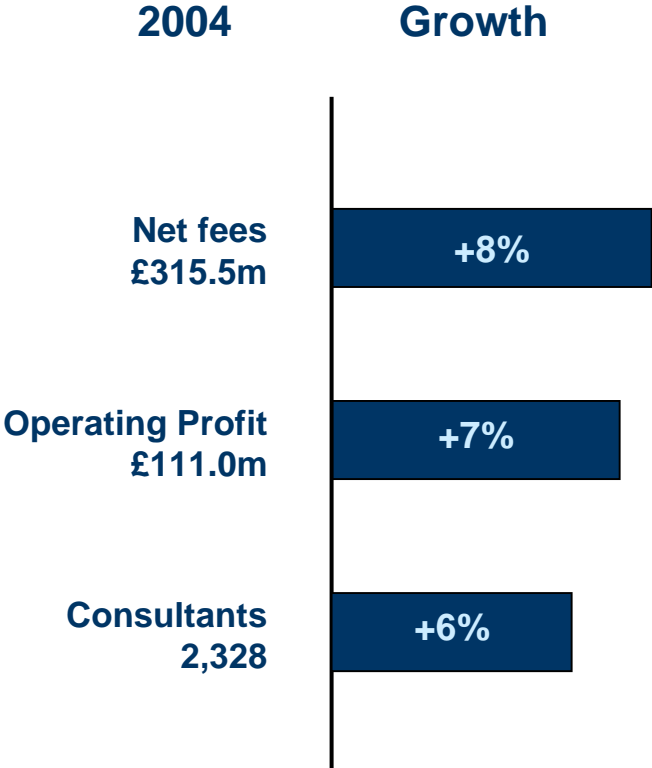
- Tremendous growth across all activities
- High growth in organic starts
- Improved volume and perm rates
- Business outlook positive



\* Before acquisitions and at constant exchange rates

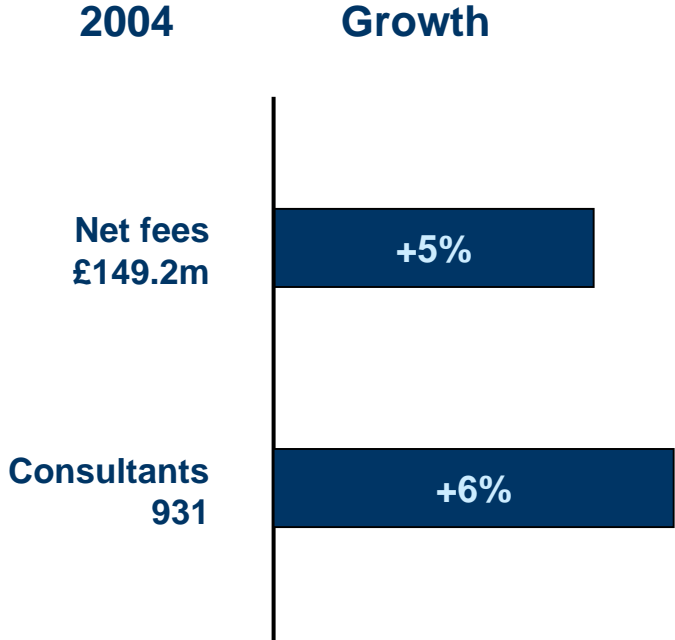
## United Kingdom

- Growth in all segments
- Acceleration in second half
- Accountancy & Finance returned to growth in Q3
- Permanent market picking up
- Continued public sector growth



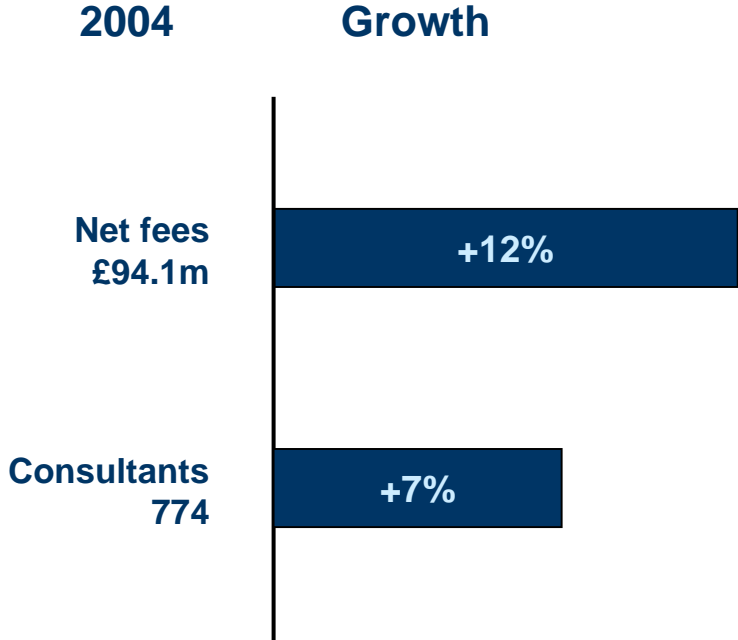
## United Kingdom – Accountancy & Finance

- Accountancy market returned to growth in Q3
  - Corporates and professional service firms re-hiring
  - South East coming back
  - Moderate salary inflation
  - Permanent fees picking up
- Strong regional strategy continues
  - 80% net fees outside London
- High growth organic starts
  - HR; Sales & Marketing; Purchasing



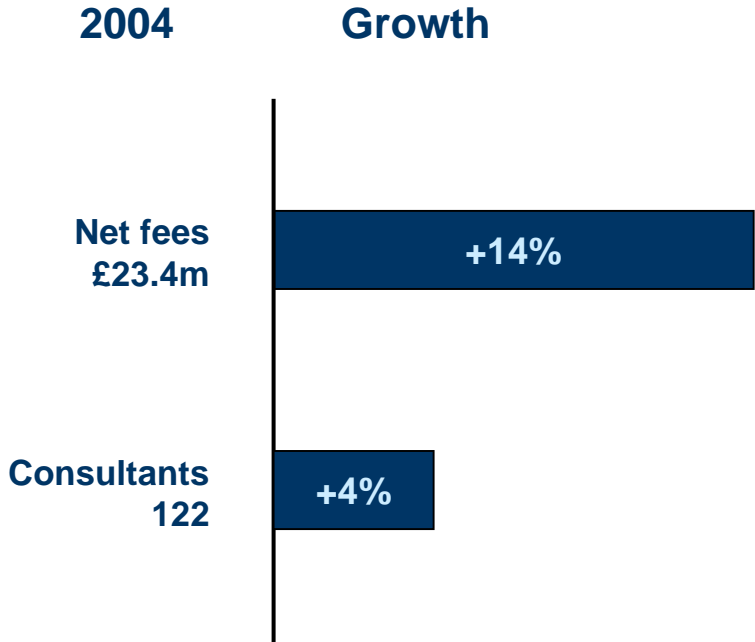
## United Kingdom – Construction & Property

- Volume main driver
- Shortages of skilled people
- Strong regional performance
- Growth in overall market
- Public sector growth
- FM and the built environment



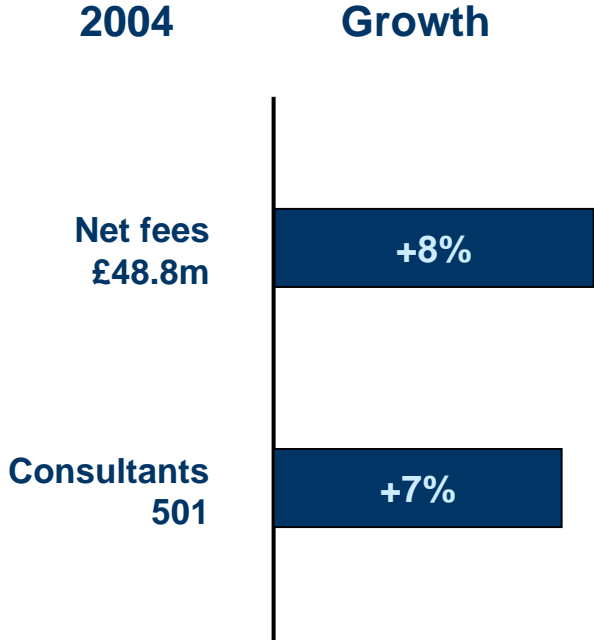
## United Kingdom – Information Technology

- Recovery strengthened in second half
- Perm fees acceleration in second half
- Return of spot SME market
- Recovery broadly based
- Large corporates rationalising suppliers



## United Kingdom – Other

- Market conditions mixed
- Banking and Education largest contributors to growth
- Difficult conditions for Financial Services and Legal
- Contact Centres net fees similar to prior year



## Pricing

---

- Rates for permanent recruitment maintained or increased
- Temporary gross margin in the year 19.7% (2002/03: 21.3%)
  - Changes in business mix
  - Higher growth in large contract business
  - “Spot” margins robust
  - Pricing pressure in certain activities

## Margin enhancement

---

- Defend pricing aggressively in more buoyant markets
- Implement rate increases and restrict discounting
- More focus on higher margin spot transactions
- Rigorous approach to bidding for large contracts

## Excellent performance from Specialist Recruitment

---

- Good growth across all three regions and all major activities
- Acceleration in second half
- Accountancy & Finance returned to growth in Q3
- Construction & Property and Australia & New Zealand sustained strong growth
- Excellent Continental European performance in start-ups and acquisitions
- Continued investment

# Peter Brougham

DX Services Chief Executive



# DX ... Leader in UK B2B Mail

- DX Services provides high quality B2B mail and parcels delivery services in the UK and Republic of Ireland
  - End-to-end delivery network
  - Well invested network
  - Long-standing Document Exchange customer base
  - Parcels business focused on attractive niches
  - Strong and stable financial profile, with excellent cash generation
  - Good opportunities for growth in the deregulating UK mail sector
  - Experienced and energetic management

# Three next-day delivery services

## Document Exchange



## Parcels



## Mail



- Delivering over 1m items daily
- Exclusively B2B and professional customer base
- Benefits from significant consolidation

**DX**

# End-to-end delivery network

- Only private UK-wide mail delivery network, from collection to delivery
- Network configuration provides the ability to deliver pre-8am
- Common infrastructure able to support our three service offerings

## Collection

- Exchanges and business premises
- By c.900 couriers



## Outward sortation

- Service centres
- Significant amount of mail remains locally



## Network distribution

- 1 central hub
- Directs mail to appropriate service centres



## In/Outward Sortation

- Final sort done at service centres



## Delivery

- Exchanges (c.4,500) and business premises

**DX**

# Financial overview

Year ended 30 June (£m)	Restated*	
	2004	2003
Document Exchange	84.8	80.8
Parcels	44.3	48.6
Mail	2.8	-
Turnover	131.9	129.4
Operating profit before exceptionals	32.7	33.3

- 25% operating profit margin
- Strong cash generation
- Revenue growth potential from deregulating UK mail sector

\* Historical data restated assuming that DX had been a separate entity since 1 July 2001. This resulted in differences from the segmental revenue and operating profit reported in Hays plc's Group accounts last year of £1.8m and £0.1m respectively

# John Martin

Group Finance Director

## Group profit and loss

£m	2004	2003
Turnover		
- Continuing operations	1,520.7	1,234.7
- Discontinued	644.6	1,263.7
	<u>2,165.3</u>	<u>2,498.4</u>
Operating profit *		
- Continuing operations	166.1	147.5
- Discontinued	15.4	42.6
	<u>181.5</u>	<u>190.1</u>
Associates	2.9	6.1
Interest	(3.4)	(17.3)
Profit before tax, goodwill & exceptionals	<u><u>181.0</u></u>	<u><u>178.9</u></u>

\* Before goodwill and exceptional items

## Group profit and loss (continued)

£m	2004	2003
Profit before tax, goodwill & exceptionals	181.0	178.9
Goodwill amortisation	(13.3)	(27.3)
Tax - Ordinary activities	(57.1)	(58.8)
- Exceptional items	(24.3)	18.0
Exceptional items	(20.0)	(596.4)
Profit after tax	<u>66.3</u>	<u>(485.6)</u>

2004 FX impact: + £1.6m. Subsequent weakening equivalent to (£1.3m)

## Group profit and loss - exceptional items

£m	2004
Profit / (loss) on disposals	
- Logistics and surplus properties	9.0
- Commercial	16.4
- Non-core mail	<u>13.0</u>
	38.4
- DX Services demerger costs	<u>(14.5)</u>
	23.9
Provision for Albion Group	<u>(43.9)</u>
	<u><u>(20.0)</u></u>

## Group balance sheet

£m	2004	2003*	Movement
Goodwill	99.2	113.6	
Tangible assets & investments	38.7	371.1	
Stocks	0.1	17.3	
Debtors	312.8	499.6	
Creditors	(328.3)	(637.1)	
Provisions for liabilities & charges	<u>(125.4)</u>	<u>(121.3)</u>	
	(2.9)	243.2	(246.1)
Net cash / (debt)	<u>77.4</u>	<u>(245.8)</u>	323.2
Net assets	<u><u>74.5</u></u>	<u><u>(2.6)</u></u>	

\* Restated to reflect adoption of UITF 38

## Employee benefits

£m	2004	2003
FRS 17 deficit *	(47.7)	(111.3)

- FRS 17 deficit reduction:
  - £51.7m contribution
  - Favourable impact of disposals
  - Modest increase in real discount rate
- Group SSAP 24 balances stand at £18.5m \*
- Funding rate under review: potential impact £2m to £3m pa

Aggregate of FRS 17 deficit and SSAP 24 balances = £66.2m \*

\* Net of deferred tax

## Group cash flow

£m	2004	2003
Op profit before goodwill & exceptionals	181.5	190.1
Depreciation	33.3	69.0
Pension funding & other	(51.7)	(13.9)
Change in working capital & provisions	<u>(58.3)</u>	<u>40.9</u>
Cash flow from operating activities	104.8	286.1
Net interest and financial charges	(22.1)	(10.6)
Dividends paid	(79.3)	(84.0)
Taxation	(40.7)	(62.6)
Acquisitions, disposals, capex & other	<u>360.5</u>	<u>(142.7)</u>
Movement in net debt	323.2	(13.8)

## Group cash flow – 2004/05 non-trading commitments

---

<b>Commitment</b>	<b>£m</b>
Restructuring costs	10.1
DX Services demerger costs	11.4
Other transaction costs	16.1
Exceptional tax	<u>22.0</u>
	59.6

Note: Full provision has been made for these amounts

## Demerger of DX Services – projected financial effect

---

- P&L: transaction costs provided at 30 June 2004

■ Balance sheet impact	£m
Non-financial assets	(4.0)
Net debt	<u>75.0</u>
	71.0

- £122m of goodwill currently in reserves to be written back
- Cash flow: net debt on demerger of £75m

## Dividend & return of capital

---

- Dividend:

Interim	1.0p
Final	2.0p
	<hr style="width: 50px; margin: 0 auto;"/>
	3.0p
  
- Return of capital:
  - On-market share buy-back programme
  - To commence after demerger of DX Services
  - Expect to return at least £200m in 2004/05
  
- Ongoing target net debt range remains £50m to £150m

## IFRS conversion

---

Project team will ensure smooth transition to IFRS y/e 30 June 2006

Major impacts likely to be: \*

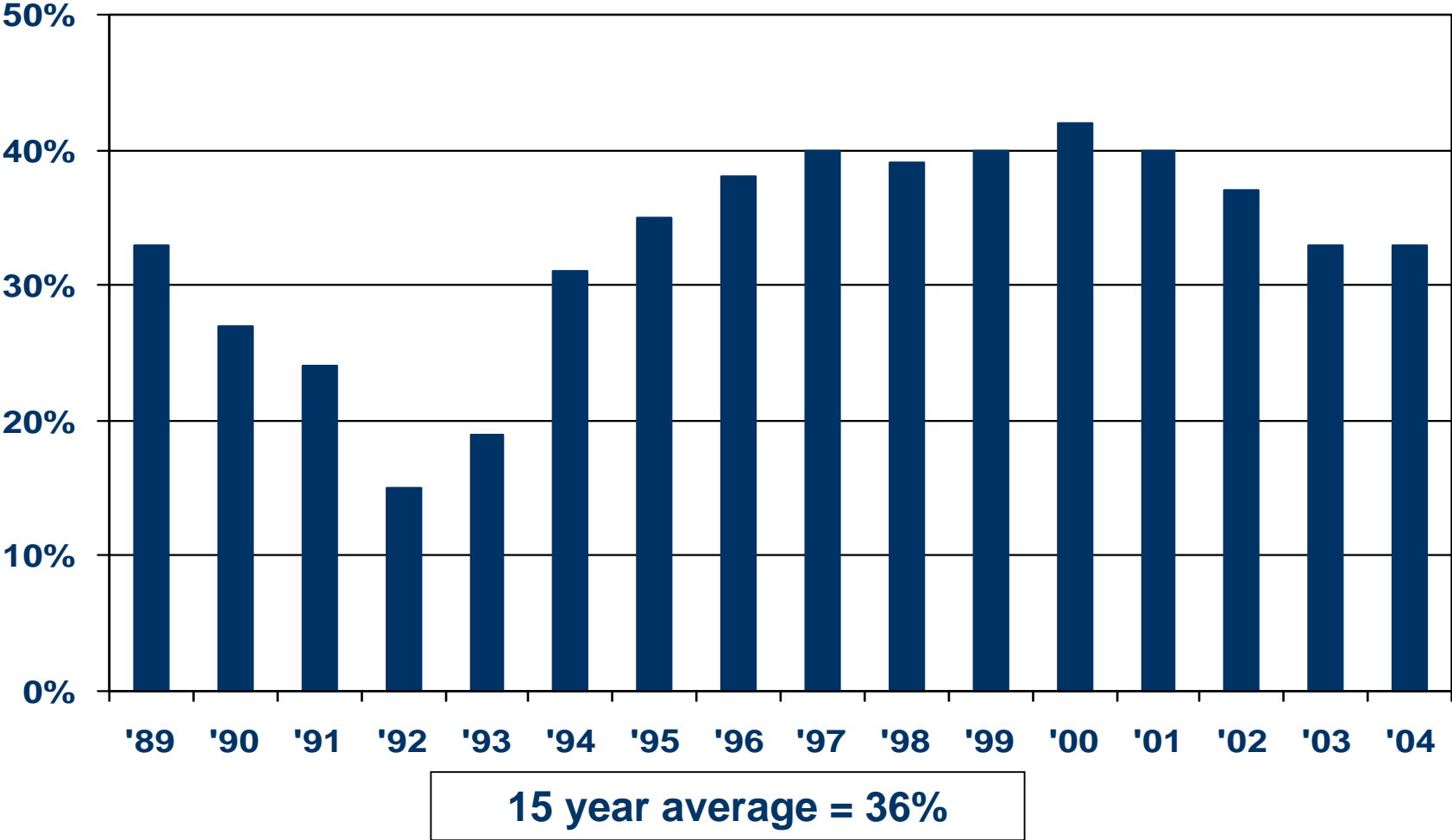
- Pensions – gross deficit brought on to balance sheet, actuarial losses go through the income statement
- Goodwill – annual impairment test to replace amortisation
- Co-investment plan accounting

\* Subject to EU endorsement

## Specialist Recruitment – profit and loss

£m	2004	2003
Temporary fees	1,225.0	964.9
Permanent fees	163.8	142.2
Total gross fees	<u>1,388.8</u>	<u>1,107.1</u>
Cost of temps	(984.1)	(759.5)
Net fees	<u>404.7</u>	<u>347.6</u>
Operating expenses	(271.3)	(233.3)
Operating profit	<u>133.4</u>	<u>114.3</u>
Temp % of net fees	59.5%	59.1%
Conversion rate %	33.0%	32.9%

## Specialist Recruitment - historical conversion rate



# Denis Waxman

Group Chief Executive

## Priorities for this year

---

- Grow organically faster than the market
  - Continue to expand network
  - Start-up new activities
  - Accelerate international expansion
- Pursue acquisitions proactively
  - Only if good business fit and at right price
- Protect pricing
- Increase consultant productivity and back office efficiency

## Specialist Recruitment outlook

---

- Sustained year on year profit growth since January 2003
- UK market outlook is positive
- Australia and New Zealand remain strong
- Improving outlook in Continental Europe
- Net fee growth of 17% since year end

## Specialist Recruitment highlights

---

- Excellent performance from Specialist Recruitment
- Good growth across all three regions and all major activities
- Demonstrating our business model works internationally
- Acquisitions exceeded initial expectations
- Confident in outlook

# APPENDICES

## Appendix I – segmental summary

	2004 Gross fees £m	2004 Net fees £m	2004 Operating profit £m	2003 Gross fees £m	2003 Net fees £m	2003 Operating profit £m
UK Accountancy & Finance	355.4	149.2	60.7	319.5	142.2	56.3
Construction & Property	319.3	94.1	33.9	274.5	84.0	31.6
Information Technology	246.3	23.4	6.9	196.2	20.5	6.2
Other	138.3	48.8	9.5	121.1	45.3	9.5
<b>Total UK</b>	<b>1,059.3</b>	<b>315.5</b>	<b>111.0</b>	<b>911.3</b>	<b>292.0</b>	<b>103.6</b>
Australia & New Zealand	157.8	48.3	19.8	106.1	34.0	13.0
Continental Europe	171.7	40.9	2.6	89.7	21.6	(2.3)
<b>Total</b>	<b>1,388.8</b>	<b>404.7</b>	<b>133.4</b>	<b>1107.1</b>	<b>347.6</b>	<b>114.3</b>

## Appendix II – like-for-like summary

	2003 £m	Acqns £m	fx £m	Other £m	2004 £m
<b><u>Gross fees</u></b>					
Continental Europe	89.7	67.9	3.7	10.4	171.7
Australia & New Zealand	106.1	-	12.1	39.6	157.8
United Kingdom	911.3	-	-	148.0	1,059.3
	<u>1,107.1</u>	<u>67.9</u>	<u>15.8</u>	<u>198.0</u>	<u>1,388.8</u>
<b><u>Net fees</u></b>					
Continental Europe	21.6	13.8	0.9	4.6	40.9
Australia & New Zealand	34.0	-	3.9	10.4	48.3
United Kingdom	292.0	-	-	23.5	315.5
	<u>347.6</u>	<u>13.8</u>	<u>4.8</u>	<u>38.5</u>	<u>404.7</u>
<b><u>Operating profit</u></b>					
Continental Europe	(2.3)	3.5	(0.1)	1.5	2.6
Australia & New Zealand	13.0	-	1.7	5.1	19.8
United Kingdom	103.6	-	-	7.4	111.0
	<u>114.3</u>	<u>3.5</u>	<u>1.6</u>	<u>14.0</u>	<u>133.4</u>

## Appendix III - consultants

---

	<b>June 2004</b>	<b>June 2003</b>
Accountancy & Finance	931	881
Construction & Property	774	723
Information Technology	122	117
Other	501	470
	<hr/>	<hr/>
United Kingdom	2,328	2,191
Australia & New Zealand	384	325
Continental Europe	395	301
	<hr/>	<hr/>
Total	<u>3,107</u>	<u>2,817</u>

## Appendix IV - offices

---

	<b>June 2004</b>	<b>June 2003</b>
United Kingdom	234	221
Australia & New Zealand	30	27
Continental Europe	49	45
	<hr/>	<hr/>
	313	293
	<hr/>	<hr/>