

TRADING UPDATE QUARTER ENDED 31 DECEMBER 2014

8 January 2015

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Financial summary

Growth in net fees for the quarter ended 31 December 2014 (Q2 FY15)

(versus the same period last year)

	Growth	
	Actual	LFL ⁽¹⁾
By region		
Asia Pacific	5%	11%
Continental Europe & Rest of World	2%	9%
United Kingdom & Ireland	13%	14%
Total	7%	11%
By segment		
Temporary	4%	8%
Permanent	11%	16%
Total	7%	11%

Highlights

- Strong Group performance with quarterly net fee growth accelerating to 11%⁽¹⁾, driven by Perm
- Strong growth in Asia Pacific, including an acceleration in Australia & New Zealand to 10%⁽¹⁾, driven by Perm up 19%⁽¹⁾. Asia delivered further strong growth of 13%⁽¹⁾
- Strong broad-based growth in the UK & Ireland, including excellent Perm growth of 23%⁽¹⁾. Major specialisms of Accountancy & Finance, Construction & Property and IT all grew by over 15%⁽¹⁾
- Good growth in Continental Europe & Rest of World, including good growth of 6%⁽¹⁾ in Germany and strong 14%⁽¹⁾ growth in France, one of 15 countries in the region delivering 10%⁽¹⁾ growth or more
- On 4 December 2014, Hays acquired 80% of Veredus Corp., a US IT staffing company, for an initial consideration of approximately \$44 million (c.£28 million)

Commenting on the Group's performance, Alistair Cox, Chief Executive, said:

"We have delivered another strong set of quarterly results, driven by an acceleration of Perm growth⁽¹⁾ in each of our three regions. Conditions were good in the majority of our markets and it was encouraging to return to strong growth in Australia after a difficult couple of years. During the quarter we completed the Veredus acquisition, giving Hays a significant platform in the USA, the world's largest recruitment market.

As ever, activity levels at the start of the New Year will be an important driver of the Group's second half performance and, while we are mindful of the risks our world faces today, we continue to see supportive conditions in most of our markets. Our focus remains on continual improvement in business productivity while simultaneously increasing consultant capacity in the many areas where we see opportunities for growth. This approach has enabled us to build the largest global platform in our industry, with meaningful scale in every major recruitment market around the world, as well as deliver continued strong profit performance, a combination that sets us apart from our competition."

Group

In the second quarter ended 31 December 2014 net fees increased 7% on a headline basis and 11% on a like-for-like basis⁽¹⁾ against the prior year. The difference between actual and like-for-like net fee growth rates was primarily the result of a material depreciation of both the Euro and the Australian Dollar against Sterling.

If the rates of exchange of the Group's key operating currencies remained as at 6 January 2015 levels throughout the rest of the financial year, operating profit would reduce by c.£8 million versus FY14. Therefore using £132 million as a base, for the full year we continue to expect the percentage rate of growth in operating profit to be between 2x and 3x the percentage rate of growth in net fees, on a like-for-like basis. Specifically for the first half of the financial year we expect the ratio to be approximately 3x.

The Temp business, which accounted for 58% of Group net fees in the quarter, increased by 8%⁽¹⁾ and the underlying temp margin⁽²⁾ was broadly stable. The Perm business increased by 16%⁽¹⁾.

The exit rate of Group net fee growth was broadly in line with the quarter as a whole, with no significant differences by region.

As announced on 4 December 2014 Hays acquired 80% of Veredus Corp., a pure-play IT staffing company headquartered in Tampa, Florida, for an initial consideration of approximately \$44 million (c.£28 million), on a cash free / debt free basis. The remaining 20% of equity in Veredus is retained by the selling shareholders, all of whom continue in their senior leadership roles within the Hays USA business. The cash consideration was fully funded from existing debt facilities. Hays has the option to acquire the remaining 20% from the selling shareholders, with the option first available for exercise in March 2018, at a pre-determined multiple of earnings, and is subject to a cap. Veredus generates c.85% of its net fees from contracting and temporary assignments. It has 150 employees and 10 offices focused in the South East and Mid-West of the USA, making placements across 30 states last year.

Consultant headcount was flat in the quarter and up 9% year-on-year as we invested selectively across the Group where market conditions and outlook were supportive. These numbers exclude the impact of the Veredus acquisition which added a further 130 consultants, or 2%, to the Group.

Asia Pacific

In Asia Pacific, which represented 23% of Group net fees, we delivered strong growth of 11%⁽¹⁾.

In Australia & New Zealand we delivered strong net fee growth of 10%⁽¹⁾, driven by excellent Perm growth of 19%⁽¹⁾. Temp, which represented 66% of net fees in the quarter, increased by 7%⁽¹⁾.

In Australia we delivered net fee growth of 11%⁽¹⁾, with growth in all States. The major regions of New South Wales and Victoria were up 9%⁽¹⁾, Queensland and Western Australia were up 6%⁽¹⁾, while the remaining smaller states delivered excellent growth. Good growth continued in the technical specialisms as Construction & Property, our largest specialism in Australia, grew by 14%⁽¹⁾ and IT increased by 8%⁽¹⁾. Accountancy & Finance net fees were down 2%⁽¹⁾ but sequentially stable. In New Zealand, we saw good growth of 9%⁽¹⁾.

In Asia, which accounted for 22% of the division, net fees increased by 13%⁽¹⁾. Hong Kong delivered strong growth of 10%⁽¹⁾ while China delivered excellent growth of 36%⁽¹⁾. In Japan, our largest business in Asia, we delivered a record monthly net fee performance in December albeit over the quarter net fees grew by 3%⁽¹⁾.

Consultant headcount in the division was up 4% in the quarter and 14% year-on-year. Consultant headcount in Australia & New Zealand was up 3% in the quarter and 10% year-on-year, and in Asia was up 5% in the quarter and 21% year-on-year.

Continental Europe & Rest of World ('RoW')

In Continental Europe & RoW, our largest division which represented 41% of Group net fees, we delivered good growth of 9%⁽¹⁾. Net fee growth of 6%⁽¹⁾ in Germany was good, driven by growth of 5%⁽¹⁾ in our core IT & Engineering business and 9% growth in our newer specialisms including Accountancy & Finance which grew by 8%⁽¹⁾. Germany Temp net fees increased by 6%⁽¹⁾ and Perm by a strong 10%⁽¹⁾.

In the rest of the division, which is primarily a Perm business, the continued rollout of our contracting model helped to drive strong growth, with net fees increasing by 13%⁽¹⁾. Within this, 15 countries delivered growth of 10%⁽¹⁾ or more, including key businesses such as Belgium, Netherlands, Spain and Switzerland. France, our second largest business in the division, delivered a record quarterly performance, with net fees up 14%⁽¹⁾ and broad-based growth across all regions and specialisms.

Consultant headcount in the division was up 2% in the quarter and 9% year-on-year. These numbers exclude the impact of the Veredus acquisition which added a further 130 consultants.

United Kingdom & Ireland

In the United Kingdom & Ireland, which represented 36% of Group net fees, we delivered another strong quarter with 14%⁽¹⁾ fee growth. Temp delivered good growth of 7%⁽¹⁾ and Perm delivered excellent growth of 23%⁽¹⁾ as candidate confidence remained strong. Activity levels were broad-based and we delivered excellent performances in the North West, Midlands, the East, London (ex City) and South Coast, all of which grew by more than 20%⁽¹⁾. The City of London returned to growth at 4%⁽¹⁾ and net fees in Ireland were down 4%⁽¹⁾.

Accountancy & Finance, our largest specialism, delivered strong growth of 18%⁽¹⁾, within which our Senior Finance business grew by 24%⁽¹⁾. IT delivered excellent growth of 29%⁽¹⁾ and Construction & Property performed strongly, up 20%⁽¹⁾. Education, a predominantly public sector business, delivered strong growth of 17%⁽¹⁾.

Our private sector business, which represented 69% of the division's net fees, delivered strong growth of 14%⁽¹⁾. In our public sector business we delivered strong growth of 13%⁽¹⁾.

Consultant headcount in the division was down 2% in the quarter due to timing but more importantly was up 7% year-on-year.

Cash flow and balance sheet

Cash performance in the quarter was strong, with net debt increasingly modestly at the end of December to c.£80 million (30 June 2014: c.£63 million, 31 December 2013: c.£105 million) despite the payment in November of the Group's final dividend of £25.3 million and the acquisition of Veredus. We expect net debt to reduce in the second half of the financial year.

- (1) LFL (like-for-like) growth represents organic growth at constant currency and excludes the impact of acquisitions.
- (2) The underlying Temp gross margin is calculated as Temp net fees divided by Temp gross revenue and relates solely to Temp placements in which Hays generates net fees. This specifically excludes transactions in which Hays acts as agent on behalf of workers supplied by third party agencies and arrangements where the Company provides major payrolling services.

Enquiries

Hays plc

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Conference call

Paul Venables and David Walker of Hays plc will conduct a conference call for analysts and investors at 9:00am United Kingdom time on 8 January 2015. The dial-in details are as follows:

Dial-in number	+44 (0)20 3139 4830
Password	88319059#

The call will be recorded and available for playback for seven days as follows:

Replay dial-in number	+44 (0)20 3426 2807
Access code	652816#

Reporting calendar

Interim Results for six months ended 31 December 2014	25 February 2015
Interim Management Statement for quarter ending 31 March 2015	9 April 2015
Trading Update for quarter ending 30 June 2015	9 July 2015
Preliminary Results for the year ending 30 June 2015	27 August 2015

Hays Group overview

As at 30 June 2014, Hays had 8,237 employees in 237 offices across 33 countries. In many of our global markets, the vast majority of professional and skilled recruitment is still done in-house, with minimal outsourcing to recruitment agencies which presents substantial long-term structural growth opportunities. This has been a key driver of the rapid diversification and internationalisation of the Group, with the International business representing 66% of the Group's net fees, compared with just over 20% 10 years ago.

Our 5,357 consultants work in a broad range of sectors with no sector specialism representing more than 17% of Group net fees. While Accountancy & Finance, Construction & Property and IT represent 49% of Group net fees, our expertise across 20 professional and skilled recruitment specialisms gives us opportunities to rapidly develop newer markets by replicating these long-established, existing areas of expertise.

In addition to this international and sectoral diversification, the Group's net fees are generated 59% from temporary and 41% permanent placement markets, and this balance gives our business model relative resilience.

This well diversified business model continues to be a key driver of the Group's financial performance.

Cautionary statement

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