

RECORD INTERNATIONAL PROFITS AND RECORD TOTAL DIVIDENDS

“I am pleased to report a strong financial performance, including our core dividend up 18%, and the Group’s second special dividend of £72.9 million.”

Paul Venables
Group Finance Director, Hays plc

FINANCE DIRECTOR’S REVIEW

Financial highlights

I am pleased to report that we delivered a strong financial performance for 2018. Turnover was up 13%, and net fees⁽²⁾ increased by 12% on both an actual and like-for-like basis, with operating profit up 15%, again on both an actual and like-for-like basis, to £243.4 million. We converted 100% of operating profit into operating cash flow. Our industry-leading conversion rate⁽³⁾ improved by 50bps to 22.7% (2017: 22.2%), driven by positive leverage in RoW.

Our cash performance was strong, we ended the year with net cash of £122.9 million. As a result, the Board proposes to increase the final core dividend by 22% to 2.75p per share, resulting in an increase to the full-year core dividend to 3.81p per share, up 18% on prior year and covered 3.0x by earnings. Additionally, our strong cash position and our confidence in outlook, enabled the Board to propose a special dividend of 5.00p per share, in line with our dividend policy.

During the year, overall market conditions remained strong, with many clear opportunities to grow, notably in Australia, Germany and RoW. Within RoW, our Asia and Americas growth accelerated throughout the year. In the UK, our markets remain uncertain but are stable overall.

Increase in Group net fee income

+12%

2017: +6%

Conversion rate of Group net fees into operating profit

22.7%

2017: 22.2%

Increase in operating profit

+15%

2017: +1%

Group consultant headcount up 8% year-on-year

7,464

2017: 6,884

Total proposed and paid dividends

£128.4m

2017: £108.2m

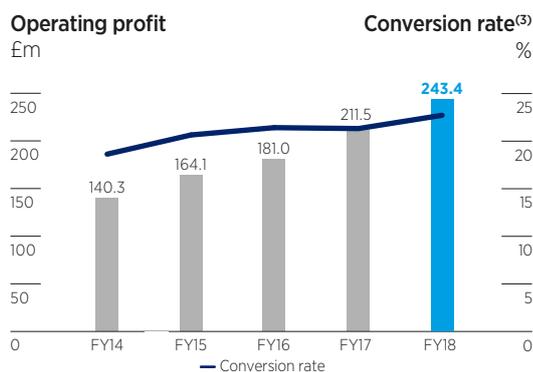
Operating performance

Year ended 30 June (£s million)	2018	2017	Actual growth	LFL growth
Turnover ⁽¹⁾	5,753.3	5,081.0	13%	13%
Net fees ⁽²⁾	1,072.8	954.6	12%	12%
Operating profit	243.4	211.5	15%	15%
Cash generated by operations	243.5	217.0	12%	
Profit before tax	238.5	204.6	17%	
Basic earnings per share	11.44p	9.66p	18%	
Dividend per share	3.81p	3.22p	18%	

Note: unless otherwise stated all growth rates discussed in the Finance Director’s Review are LFL (like-for-like) year-on-year net fees and profits, representing organic growth of continuing operations at constant currency.

(1) Net fees of £1,072.8 million (2017: 954.6 million) are reconciled to statutory turnover of £5,753.3 million (2017: £5,081.0 million) in note 5 to the Consolidate Financial Statements.

(2) Net fees comprise Turnover less remuneration of temporary workers and other recruitment agencies.



Foreign exchange

Overall, net currency movements versus sterling were minimal in the year. Over the course of the year to 30 June 2018, exchange rate movements reduced net fees by £0.1 million, and increased operating profit by £1.0 million.

Fluctuations in the rates of the Group's key operating currencies versus sterling continue to represent a significant sensitivity for the reported performance of our business. By way of illustration, each 1 cent movement in annual exchange rates of the Australian dollar and euro impacts net fees by £1.1 million and £3.8 million respectively per annum; and operating profits by £0.4 million and £1.2 million respectively per annum.

The rate of exchange between the Australian dollar and sterling over the year ended 30 June 2018 averaged AUD 1.7388 and closed at AUD 1.7847. As at 28 August 2018 the rate stood at AUD 1.7535. The rate of exchange between the euro and sterling over the year ended 30 June 2018 averaged €1.1290 and closed at €1.1307. As at 28 August 2018 the rate stood at €1.0996.

The impact of these movements in foreign exchange rates means that if we re-translate the Group's full-year operating profit of £243.4 million at 28 August 2018 exchange rates, the actual reported result would increase by c.£3 million to c.£246 million.

Strong growth in International Temp and Perm

Net fees in Temp, which incorporates our Contracting business and represented 58% of Group net fees, increased by 10%. This comprised a volume increase of 13%, partially offset by underlying Temp margins⁽⁴⁾ down 50bps at 15.9% (2017: 16.4%), primarily due to mix and a reduction in Temp margin in our Australia, Germany and UK markets. Net fees in Perm increased by 16%, with volumes up 11% and our average Perm net fee up 5%. Perm growth in our International businesses was strong and broad-based, and Perm net fees grew 1% in the UK.

Movements in consultant headcount

Consultant headcount ended June 2018 at 7,464, up 8% year-on-year. In ANZ, consultant headcount was up 10% year-on-year, led by Australia up 12%. Our Germany consultant headcount was up 13%.

In UK & I, the division's consultant headcount was down 2% in the year, by natural attrition. In Rest of World (RoW), consultant headcount increased by 13% year-on-year, including material investments in the USA, Canada and China, where headcount was up 21%, 23% and 23% respectively. Over the last six months, Group consultant headcount growth was flat (versus December 2017).

Current trading

We continue to see strong overall net fee growth across our International businesses. We will therefore continue to invest in a targeted way to capitalise on these opportunities. Conditions in the UK are stable overall.

Movements in the rates of exchange of the Group's key currencies, notably the Australian dollar and the euro, remain a material sensitivity to our reported financial performance.

We expect Group headcount growth in Q1 FY19 to be up c.3-5% sequentially, including the impact of our normal seasonal graduate intake. This will be primarily driven by our International businesses, particularly North America, Asia and Europe, including Germany and France.

Importantly, moving into FY19, we increasingly overlap tough growth comparatives from the prior year, especially in Australia and Europe.

Australia & New Zealand

We continue to see good activity levels in Australia across all states and most specialisms, although we start to overlap increasingly tough growth comparatives in Q1 FY19.

Germany

In Germany, growth remains strong overall, despite tough comparators.

United Kingdom & Ireland

Conditions in the UK remain uncertain but stable.

Rest of World

Conditions remain strong across Europe, Asia and the Americas.

(3) Conversion rate is the proportion of net fees converted into operating profit.

(4) The underlying 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 and 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.

Operating profit bridge: year-on-year growth £m



Net finance charge

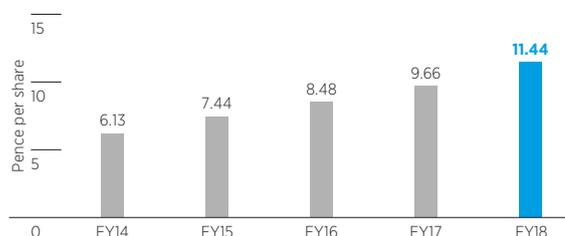
The net finance charge for the year was £4.9 million (2017: £6.9 million). The average interest rate on gross debt during the period was 2.0% (2017: 2.2%), generating net bank interest payable including amortisation of arrangement fees of £1.6 million (2017: £2.1 million). The net interest charge on defined benefit pension scheme obligations was £2.1 million (2017: £2.4 million). The Pension Protection Fund levy was £0.3 million (2017: £0.5 million) and the interest unwind on the deferred acquisition liability related to the Veredus transaction was £0.6 million (2017: £1.1 million). We expect the net finance charge for the year ending 30 June 2019 to be around £3.0 million.

Taxation

Taxation for the year was £72.7 million (2017: £65.5 million), representing an effective tax rate of 30.5% (2017: 32.0%). The effective tax rate reflects the Group's geographical mix of profits, with the decrease year-on-year primarily due to increased profit in lower tax jurisdictions, and a reduction in UK tax rate. The Group's effective tax rate for the year to June 2019 will be driven by the mix of profits generated during the year. We currently expect the rate to be broadly unchanged at 30.5%.

Earnings per share

Basic earnings per share increased by 18% to 11.44 pence (2017: 9.66 pence), reflecting the Group's higher operating profit, lower net finance charge and lower effective tax rate.

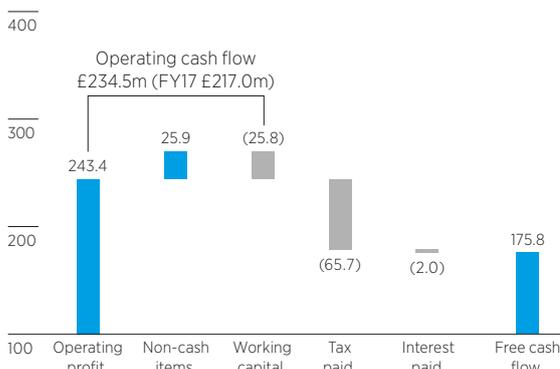


“We continue to see strong overall net fee growth across our International businesses. Conditions in the UK are stable overall.”

Cash flow and balance sheet

Strong underlying cash performance with 100% conversion of operating profit into operating cash flow (2017: 103%). This was a result of good working capital management throughout the year, particularly considering the strong growth in our International Temp and Contracting businesses, which are relatively working capital-intensive. Trade debtor days were unchanged at 39 days (2017: 39 days).

Operating profit to free cash flow conversion £m

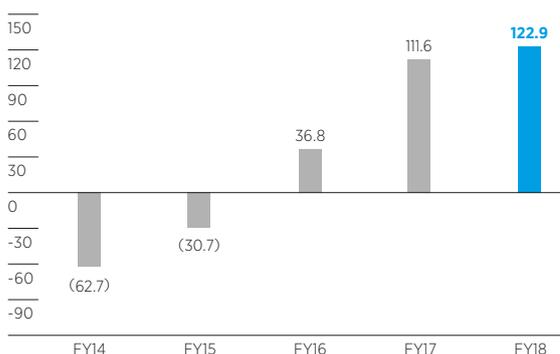


Net capital expenditure was £25.0 million (2017: £21.4 million), with the increase primarily due to investments in IT front and back office operational systems, cyber security and property. We expect capital expenditure to be c.£30 million for the year to June 2019.

Dividends paid in the year totalled £109.7 million and pension deficit contributions were £15.3 million. Net interest paid was £2.0 million and the cash tax payment was £65.7 million.

Having eliminated net debt in 2016 and paid a £61.6 million special dividend during the year, we ended June 2018 with a net cash position of £122.9 million.

Closing net cash/(net debt) £m



Retirement benefits

The Group's pension position under IAS19 at 30 June 2018 has resulted in a surplus of £75.9 million, compared to a deficit of £0.2 million at 30 June 2017. The surplus was primarily due to favourable changes in both demographics and financial assumptions (an increase in the discount rate and a decrease in the inflation rate), together with an increase in asset values.

In respect of IFRIC 14, the scheme's Definitive Deed and Rules is considered to provide Hays with an unconditional right to a refund of surplus assets and therefore the recognition of a net defined benefit scheme asset is not restricted. Agreements to make funding contributions do not give rise to any additional liabilities in respect of the scheme.

During the year the Company contributed £15.3 million of cash to the defined benefit scheme (2017: £14.8 million), in line with the agreed deficit recovery plan. The 2015 triennial valuation quantified the actuarial deficit at c.£95 million and the recovery plan comprises an annual payment of £14.0 million from July 2015, with a fixed 3% uplift per year, over a period of just under 10 years. The scheme was closed to new entrants in 2001 and to future accrual in June 2012. The formal actuarial valuation as at 30 June 2018 is currently being performed by the actuary and will be completed during FY19.

On 6 August 2018, Hays Pension Trustee Limited, in agreement with Hays plc, entered into a bulk purchase annuity policy (buy-in) contract with Canada Life Limited for a premium of £270.6 million in respect of insuring all future payments to the existing pensioners of the Hays defined benefit scheme as at 31 December 2017. The pension buy-in transaction was funded through the existing investment assets held by the Trustee on behalf of the pension scheme.

This material balance sheet de-risking exercise is in line with Hays' long-term strategy to reduce future volatility of the Group's defined benefit schemes, and their financial impact on the Group.

Capital structure and dividend

The Board's priorities for our free cash flow are to fund the Group's investment and development, maintain a strong balance sheet and deliver a sustainable core dividend at a level which is both affordable and appropriate. Our strategy is to maintain dividend cover at the top end of 2.0x to 3.0x full-year earnings, and to match increases in core dividend with full year earnings growth. Assuming a positive outlook, it remains our intention that any excess free cash flow generated over-and-above £50 million, which is not needed for the priorities outlined above, will then be distributed to shareholders via special dividends to supplement the core dividend at year end.

With reference to the above, and taking into account the good financial performance of the Group this year, the Board proposes to increase the final core dividend by 22% to 2.75p per share resulting in an increase to the full-year dividend to 3.81p per share, up 18% on prior year. As such, the full-year dividend will be covered 3.0x by earnings. Additionally, in line with the above policy on uses of excess cash flow, the Board recommends the payment

of a special dividend of £72.9 million, equivalent to 5.00p per share, up 18% on prior year. The final dividend and the special dividend will be paid, subject to shareholder approval, on 16 November 2018 to shareholders on the register on 5 October 2018.

Treasury management

The Group's operations are financed by retained earnings and bank borrowings. The Group has in place a £210 million revolving credit facility, maturing in April 2020, which provides considerable headroom versus current and future Group funding requirements. The covenants within the facility require the Group's interest cover ratio to be at least 4:1 (ratio as at June 2018: 123:1) and its leverage ratio (net debt to EBITDA) to be no greater than 2.5:1 (as at 30 June 2018 the Group held a net cash position). The interest rate of the facility is on a ratchet mechanism with a margin payable over LIBOR in the range 0.90% to 1.55%.

The Group's UK-based treasury function manages the Group's treasury risks in accordance with policies and procedures set by the Board, and is responsible for day-to-day cash management; the arrangement of external borrowing facilities; the investment of surplus funds; and the management of the Group's interest rate and foreign exchange risks. The Treasury function does not engage in speculative transactions and does not operate as a profit centre, and the Group does not hold or use derivative financial instruments for speculative purposes.

The Group's cash management policy is to minimise interest payments by closely managing Group cash balances and external borrowings. Euro-denominated cash positions are managed centrally using a cash concentration arrangement which provides visibility over participating country bank balances on a daily basis. Any Group surplus balance is used to repay any maturing loans under the Group's revolving credit facility or is invested in overnight money market funds. As the Group holds a sterling-denominated debt facility and generates significant foreign currency cash flows, the Board considers it appropriate in certain cases to use derivative financial instruments as part of its day-to-day cash management. The Group does not use derivatives to hedge balance sheet and income statement translation exposure.

The Group is exposed to interest rate risk on floating rate bank loans and overdrafts. It is the Group's policy to limit its exposure to interest rates by selectively hedging interest rate risk using derivative financial instruments. However there were no interest rate swaps held by the Group during the current or prior year.

Counterparty credit risk arises primarily from the investment of surplus funds. Risks are closely monitored using credit ratings assigned to financial institutions by international credit rating agencies. The Group restricts transactions to banks and money market funds that have an acceptable credit profile and limits its exposure to each institution accordingly.

Paul Venables
Group Finance Director
29 August 2018