

Megatrend 3

STRUCTURAL MARKET GROWTH AND EVOLVING CLIENT DEMANDS

Most professional recruitment around the world is still done by in-house HR teams. This is true across mature and emerging economies, although both are increasingly opening up to the concept of outsourcing specialist recruitment.

We continue to observe a shift, mainly among large corporates, towards centralised procurement. Our services must be tailored to these different client needs, whether it is first-time outsourcing or providing different specialist recruitment delivery models.

What this means for us

We have scale in both mature, cyclical markets and less mature, structural-growth markets. We have been building a strong presence in markets like Germany which, despite being a highly developed economy, has a low but rising penetration rate when it comes to the outsourcing of recruitment services for skilled, professional roles.

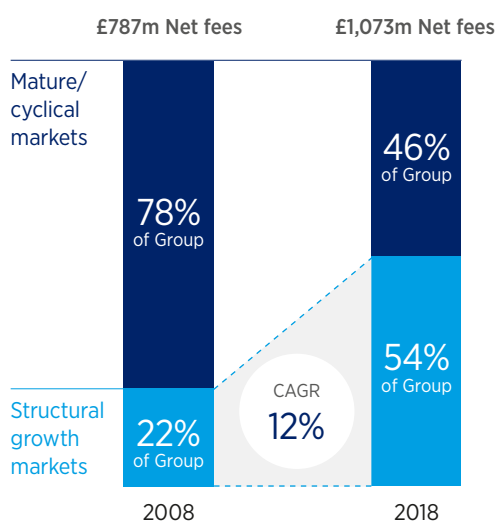
Even as market leader in Germany, we still see many growth opportunities as more businesses outsource their recruitment of skilled labour. We estimate a significant amount of our growth in recent years has come from such first-time client outsourcing. A similar trend also exists in many of our RoW markets of Asia and parts of Europe. By capitalising on these structural trends, our growth is not solely dependent on economic cycles.

We also tailor our services to meet specific company needs, adapting to new business practices and client requirements such as centralised procurement. We have developed hub-like delivery models that match our clients' needs for efficient recruitment processes at scale, in the most effective and appropriate way.

Hays' main example of this is our Managed Service Provider (MSP) offering. We use our scale, infrastructure and deep candidate pools to manage Temp and Contract workforces on an outsourced basis. Often, such contracts are managed on-site at clients' locations, or from lower-cost Hays regional or international offices.

While there is a balance between the net fee rates earned on large contracts and higher transaction volumes, we are highly disciplined in how we structure the cost base on each contract to ensure that our contribution margins remain in line with Group conversion rates.

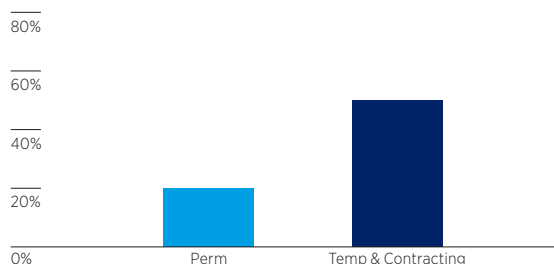
Over half of our business today is in the world's best structural-growth markets



We also offer some Recruitment Process Outsourcing (RPO) services, albeit on a smaller scale than MSP. In RPO, we manage all Permanent recruitment processes on behalf of clients. Together, these MSP and RPO services sit under our Hays Talent Solutions business, and represent c.15% of our net fees.

Our ability to deliver high quality MSP and RPO services to our clients is closely linked to our use of technology, and investment in developing tools to provide first-class, large-scale HR services. For example, to help clients of any size track all aspects of their contingent workforce, we offer technology solutions like our 3 Story Software, a cloud-based vendor and workforce management system.

Outsourcing levels of skilled recruitment in Germany⁽¹⁾



(1) Hays Management estimate.

Germany net fee CAGR since 2003

20%

Germany net fees by specialism



RoW net fee CAGR since 2007

16%

RoW net fees by specialism



“First-time outsourcing is common to our growth in both Germany and RoW, driving significant growth for Hays.”

Structural growth in Germany and RoW

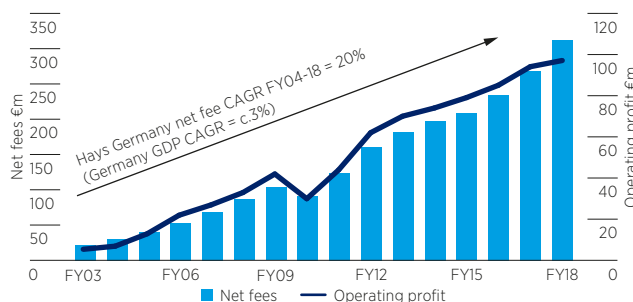
While Germany is predominantly a Temp/ Contractor market, and RoW is mainly in Perm recruitment, we see considerable similarities. Both are immature markets with low levels of outsourcing to specialist agencies, and both are characterised by skill shortages. Hays’ position as a trusted platform to broker the link between white collar talent and employers means we see substantial structural growth opportunities.



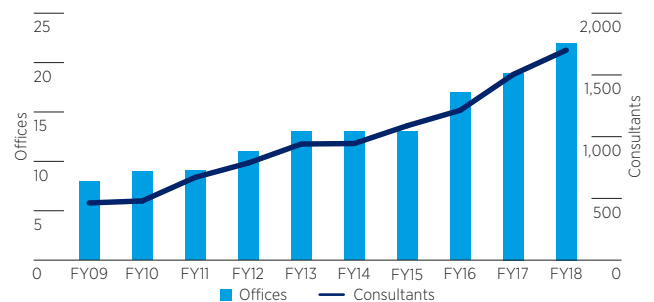
The Germany business we acquired in 2003 has delivered c.20% CAGR in net fees since then. From one specialism and €3 million operating profit in 2003, we delivered €97 million across nine specialisms in FY18. We have a truly market-leading business, in a market which is structurally under-penetrated.

Similarly, our RoW division has gone from a loss of £3 million in FY13, to operating profit of £41 million in FY18, with net fees growing at 15% CAGR. First-time outsourcing is again a substantial opportunity for Hays in RoW. We are seeing excellent profit leverage as our 28 RoW countries gain maturity and scale. With 99 offices in RoW, and scope to increase our number of specialisms, we are optimistic about future growth opportunities.

Historical profile of Hays Germany



Historical profile of Hays Germany



Historical profile of Hays Rest of World

