"Despite tougher markets, we delivered a solid financial performance in FY19. Our net fees grew by 6% and hit a new record, and operating profit[1] increased by 4%. Excellent cash generation underpins our record full-year total dividends of £137.9 million."

(1) Operating profit is stated before exceptional charges of £15.1 million, as detailed in note 5 to the consolidated financial statements on page 118.

THE YEAR IN REVIEW, AND THE YEARS AHEAD

Our Chief Executive, Alistair Cox, discusses the Group's performance in FY19 and looks ahead to our areas of focus and development in the future, including our progress on our five-year plan.

Watch our FY19 results meeting at haysplc.com/investors/results-centre

Q. How do you feel Hays performed in 2019?

A. There's no doubt that the macroeconomic backdrop deteriorated during FY19 and we also faced tough year-on-year growth comparatives. Despite those headwinds, I feel we delivered a solid performance. Our net fees grew by 6% and hit a new record, led by our International businesses up 7%. 19 of our countries hit their own individual net fee records, showing how broad our performance was. We grew operating profit[1] 4% to £248.8 million, equivalent to c.£252 million on a constant currency basis. Our conversion rate of 22.0% remains the best in the industry, albeit 70 bps lower year-on-year, driven by the slowdown in growth of net fees through the year. Our cash conversion, at 106%, was excellent.

Looking back, we started FY19 with strong, double-digit growth across the vast majority of our markets, and in the second half of FY18 we had invested in additional capacity in order to grow. As such, our headcount began the year up 10%. However, we saw the economic backdrop start to cool in many markets from September 2018 onwards, becoming slightly harder month by month.

When this happens, we usually face a period of negative profit leverage and this is exactly what happened, particularly in our second and third quarters. Consequently, we switched emphasis and managed our costs down to defend short-term profitability in many markets. This included restructuring several country operations, mainly in Europe, incurring an exceptional £6.8 million charge[1], which is expected to deliver c.£5 million of annualised pro-rata cost savings. We did however maintain our strategic investments in key markets such as Germany, North America and China.

Germany is our largest business and it grew 9%. We have clear market leadership in Germany and we further reinforced our position as the number one player, opening two new offices and materially expanding space in three others. We increased our headcount by 6%, although we did moderate the growth rate as fee growth slowed, particularly in the second half of the year.

The ongoing trade war between the USA and China had a material impact on the German economy, and we saw increasing signs of client cost control and protracted decision-making. In addition, the challenges faced by the German automotive industry further hurt sentiment and GDP growth slowed from 2% in July 2018 to almost zero in August 2019.

These factors impacted us and our German growth slowed from 14% in the first half of FY19 to 4% in the second half, and we enter FY20 with relatively low positive momentum.

Despite these short-term headwinds, I remain of the view that in the long-term Germany is the most exciting recruitment market in the world today, driven by acute skills shortages and the structural opening up of that market to specialist recruitment agencies. We are determined to build a substantial business there and build on our leadership position.

ANZ had a solid year, growing fees by 4% despite weaker market conditions in the second half, particularly in Construction & Property (C&P), and against increasingly tough growth comparatives. After a great run of 19 consecutive quarters of growth, our ANZ business slowed in the second half, and went slightly negative in Q419, around the time of Australia's General Election. However, we ended the year with record numbers of Temp & Contractor workers, with over 22,000 on assignment. Again, we invested in the business to reinforce the clear market leadership we have long enjoyed in Australia.

Our RoW businesses were more mixed. I'm very happy with our Asia performance, and we had some stand-out performers elsewhere, such as Canada. However, we did see a slower FY19 in parts of Western Europe, and our profit performance here was softer than I would have liked. We also had a weaker second half in Japan and the USA, although recent trends in these two markets are encouraging as we start FY20. What is exciting about so many of our countries in this division, though, is the sheer scale of structural growth opportunities for first-time outsourcing of recruitment, which gives me great confidence for our future.

Finally in the UK, given the market backdrop I think we delivered a solid result, with net fees up 2% and profit[1] up 4%. Our public sector business did well, up 11%. Understandably our private sector business was tougher and as the economic and political uncertainties continued, risks to market activity levels grew. However, many aspects of the UK labour market remain positive with employment at record levels and significant skill shortages, which is starting to lead to wage inflation for the first time in many years. Again, we defended our number one position and invested aggressively in those areas which felt more buoyant, such as Technology.

Q. What are your priorities for investment and cash?

A. My first priority is always to re-invest in the business because we are in an industry which has wonderful long-term opportunities and we aim to capture those on a global scale. In FY19 we again made significant investments in people, property and technology.

We grew headcount by 4% globally, opened eight new offices and materially expanded several others. We further enhanced our back- and front-office systems, ensuring we have the infrastructure and capacity to continue to grow. We increased our training spend and we also ramped up investment in our technology tools, firmly in the belief that the combination of intelligent systems combined with the skills of our expert consultants will allow us all to be more effective in our jobs and grow accordingly. We are a high-Return-on-Capital business and remain relatively asset-light. Our capex, £33 million in FY19, typically earns a strong payback. We are also highly cash-generative, so even after these significant investments, we ended the year with net cash of £129.7 million. Therefore, in line with our policy, I am delighted that we are able to propose increasing our core dividend by 4%, and our third successive special dividend, £79.7 million, up 9%. This takes total dividends proposed and paid for FY19 to £137.9 million, up 7% from last year. In the first two years of our five-year plan, we have either paid or proposed over £265 million in core and special dividends, a decent percentage of our total market capitalisation.

Q. How is Hays performing relative to the 2022 plan? Given you have such limited visibility on earnings, how do you ensure such targets are credible?

A. I look at our long-term plans as a means of conveying what is possible and achievable in our business over the medium term. They act as a strategic guide for us internally so we focus resources where most appropriate. They also serve to inform the outside world of the scale of the opportunities ahead and an "art of the possible" as to what our business could look like in the future. For example, our 2022 plan aims to significantly grow our profits to between £300 million – £450 million, versus £211 million delivered in FY17. When we announced this plan, at our November 2017 Investor Day, we were clear that achieving the mid-point of £375 million was based on macro conditions remaining at similar levels to the end of 2017, with no major shocks or slowdowns in our main markets.

Unfortunately, the world has become noticeably tougher since the end of 2017. The US/China trade war wasn't even on the global agenda when we set our aspirations, political uncertainty has spread across the world and Brexit has been delayed.

As such, it may take us slightly longer to achieve the mid-point of that range, but I believe we will get there in time as nothing has changed the scale of the opportunity. It is testament to the robustness of the modelling we used that, despite the cooler world economy, we are still aiming for a 2022 outcome within the range we set.

The successful delivery of our 2013 plan, which ended in 2018, also adds credibility to the 2022 plan.

Finally, it's worth noting that our cash performance is ahead of the plan, due to lower than expected working capital investment. Our Temp and Contractor business absorbs working capital when growing and in the first two years of the plan we have invested a cumulative £38 million, well below the original plan budget of £100 million. Of course, I would have preferred the faster fee growth, funded with higher working capital, but I also recognise the attractiveness of our cash profile to investors. The scale of this cash generation may not yet be fully recognised.

Q. Aside from financial performance, what were your strategic highlights in 2019? Any 'low-lights'?

A. A key part of our strategy is to expand both the scale and depth of many of our businesses, but particularly those that can become large contributors to Group profits in time. One such example is China, where our progress has again been excellent. We grew net fees by 22% in FY19, broadly in line with the 23% net fee CAGR we have delivered in China since 2010. Over that period, our conversion rates have almost quadrupled, we have increased consultant headcount by 247% and we have nearly doubled consultant productivity. We also have grown a very strong team of local managers in our Chinese business and they will be fundamental to our future success, enabling us to continue to build this business into one that really makes a difference at the Group level.

In the USA, we further expanded our C&P business. We launched that business in 2013, and it grew 27% in FY18. As the global leaders in C&P recruiting, we intend to replicate that position nationally in the USA. We also invested in our fledgling Accountancy & Finance business, combining experienced consultants transferred from around the world with locally-recruited talent to build that business quickly and broaden our portfolio of services in the USA.

We continued to invest in our German business. Since 2015, our headcount is up over 55%, and we have opened 11 new offices, reinforcing our market leadership. The benefits of this are clear: witness the continued and long-run out-performance of our Australian business, where we are number one in each state and virtually every specialism. I intend for us to replicate that level of undisputed leadership in Germany, where the long-term opportunity is excellent, stretching well beyond 2022 and offering us a future business many times bigger than that we currently have. We will therefore continue to selectively invest in Germany, despite the current market slowdown.

Strategically, we also need to be conscious of where the demand for future jobs will come from. One example is the rapid development of the IT industry around the world which offers us excellent opportunities. Most organisations are struggling to find the skills they require across newer technologies such as data science, artificial intelligence and cyber security. Therefore, for the last few years we have been investing aggressively to build a much bigger business in the Technology market and in FY18 our IT net fees grew by c.11% globally, more than double our Group rate.

Our IT business is now our largest specialism globally at 23% of Group net fees, and I can see it getting to c.30% in the long run as new roles we haven't yet thought about emerge. I think this is a great example of how we can turn real power and scale of resources into opportunities, on a global basis, something our competitors would find hard to do.

Related to this is another aspect of our Group strategy, namely to build bigger non-Perm businesses in virtually all markets. Given the dynamics of the workforce in the IT industry and the propensity for many skilled professionals to work as freelancers or contractors, it lends itself well to this strategy. We made great progress in this area and non-Perm now represents c.75% of our IT net fees in our largest markets.

The other aspect of our strategy is to find ways to harness technology and data to make our consultants even better at their jobs and fill more roles. I strongly believe in the 'Art & Science" of recruitment, combining technology and data science with the creativity and human skills embodied in our people. There are no shortcuts to achieving this though and looking at our own journey, we have gone through three phases over the last decade. Firstly to put in place the modern infrastructure we need to exploit a multi-channel world. Secondly to utilise that multi-channel world to find and engage with literally millions of people daily. And now, our third phase, to leverage our massive data pools to draw insights to help our consultants make the perfect match, every time and at a pace and scale we have not seen before.

That's an exciting place to be. Last year we further invested in our own cutting-edge tools, incorporating real-time data insights and approachability signals into both our 'SalesPlanner' business development tool, and our 'TalentManager' candidate-management system. The roll-out of both went extremely well, giving us insightful information to predict client and candidate demands, and improve productivity.

Another example is our 'Hays Hub' recruitment platform, recently launched into the UK Education sector to help schools both find the Temp talent they need very quickly but also very securely, ensuring world-class safeguarding and compliance processes. The early results are hugely exciting, and we are proud to be working alongside our partner schools to help them deliver the high standards we all want for our young people.

> "Our net fees in the Technology sector grew by c.11% globally, more than double our Group rate, and is our largest specialism with 23% of Group fees."

Watch our investor video at haysplc.com/investors

We build a lot of our technology ourselves, owning the intellectual property. However, we cannot do everything alone so we continue to build on our collaborations with some of the world's most talented and innovative organisations, designed to bring their cutting-edge technologies to bear for the benefit of our clients and candidates.

Our relationship with Stack Overflow had an excellent first year, and Xing reached its second anniversary, and continues to go well. Together with our ground-breaking relationships with SEEK in Australia and LinkedIn globally, and our more recent work with Google developing their Jobs tool, we are continually looking for ways to get the most accurate and up-to-date data in the industry. This fuels our 'Find & Engage' model, helping us to find great candidates quicker than competitors or in-house HR teams.

Things I would have liked to have seen done better? Well, the fact that the UK did not leave the EU as planned in March 2019 has added to the political uncertainty in the UK, which hasn't helped. Understandably, we saw signs of slower decision-making and reduced business confidence in our fourth quarter. That said, I applaud the performance of our UK team, consolidating our market leadership and closely controlling costs. Medium term, the UK remains a large and important economy to us. Looking forward, I am convinced the UK business will be in a strong position to capitalise on any pent-up demand once our clients feel confident to start investing in their own businesses again.

Q. Has there been any change in your assessment of the industry megatrends?

A. Our enthusiasm for the structural attraction of non-Perm and flexible working is as high as ever. The world of work is changing at a tremendous pace, and in tandem with major shifts in worker demographics and pension needs, longer, plural careers are becoming more commonplace.

We are ideally placed to help our clients plan their own growth, and how they might access resources needed to deliver that. We help them navigate the increasing complexity of workforces and legislative environments, ensuring our clients access the talent they need, in a way that makes sense for them. This can be via permanent recruitment, utilising a flexible workforce or even structuring teams of skilled individuals around specific projects.

We are actively positioning Hays to be the trusted partner and advisor to candidates throughout their working lives, helping them navigate between Perm and Flex roles interchangeably as their careers develop.

Technology and greater use of data continues to change how recruitment processes are delivered at a rapid pace. Our in-house innovations team invests heavily to understand which of the many tools continually being launched truly adds value. Where they do, we seek to build them into our own systems, benefiting our clients and candidates.

Above all, in a skill-short world, the competition for the best talent is fierce and it is our job to ensure our clients win the race. Technology and engaged data enables that process, allowing us to reach, and maintain regular contact with, a far wider pool of people. This gives our clients unprecedented access to the very best talent available.

Reaching and engaging with millions of people every day needs useful content that our customers value. That's why we produce Thought Leadership pieces like the Hays Skills Index, our Diversity & Inclusion work and our Salary Guides. Building on this engagement, we are also starting to introduce services across what we call our 'Workspace Platform' to help Temps and Contractors with some of the essential benefits a permanent employer would typically provide or give specialist advice for freelancers. The aim is to foster partnership, loyalty and ultimately repeat business with our talent pools.

In time, I can see our white-collar, professional markets, particularly in Flex roles, moving towards a 'Careers as a Service' type-model. If I am correct, Hays is uniquely positioned to help clients and candidates make this shift.

Q. On technology, how do you manage the risk of disruption from new entrants and platforms?

A. Commentators have forecast the dis-intermediation of recruitment agencies longer than I've been in the industry. First it was via job boards, then social media platforms and online communities, and latterly aggregators and peer-to-peer hiring platforms.

There is no room for complacency and we are constantly vigilant to technological change as our world continues to evolve.

That said, to date, rather than be disrupted, the role of a specialist agency has been enhanced. That's because the heart of good recruitment is based on the strength of the relationships formed with clients and candidates, which is a very human thing. I firmly believe that the prize for adding real human value in a digital world is immense. Software companies cannot do this alone, and human-only businesses miss out on what technology can augment in their people. Hays is a hybrid – we train our consultants to be the best in the industry. We have never been in a better place in terms of data and technology.

We have invested heavily in technology throughout my 12 years as CEO, to ensure our consultants have the best tools available to do their job. But we also invest heavily in our people, so they have the right skills to become trusted advisors to their clients and candidates and become true experts in their chosen field. That makes us unique and best positioned to win both against potential disruptors as well as traditional recruiters.

There are no short-cuts to achieving this position and we have a clear lead in our industry while others start their own journey.

Q. The term "our people are our greatest asset" is often used by companies. Can you give some examples of what it means at Hays?

A. Hays is a business that has people at its heart, and we are hugely proud – and protective – of our people culture. We think it's unique and it sets us apart in our industry. I visited over 15 Hays countries in FY19, and in each office the same core values of client service, integrity and passion hold true.

Some of the awards received in FY19 include Hays France ranking 8th across all sectors in the 'Great Places to Work' survey. Hays Asia also registered a great result in their version of that survey, coming 11th, which included Hays Japan winning 'Best Large Recruitment Company to work for'. Hays Germany gained an Employers Institute 'Top Employer' award for an 11th consecutive year, and our Austria and Switzerland businesses also earned the 'Top employer' status. Hays UK was ranked number one by JobCrowd as 'Best large company for graduates to work', and also had the top rated intern scheme, and Hays Australia won BHP's 'Inclusion & Diversity' award.

We don't achieve these accolades without hard work. I'm extremely proud of the success we have had from the Hays 'International Leadership and Management Programme' (ILMP), now in its second year, and designed to further equip our senior people to lead successful businesses in an increasingly complex world of work. Over 100 of our global leaders will have completed the programme by the end of FY20, and it has been an incredibly easy decision to extend the initiative so that even more of our colleagues can benefit in future years.

This year we engaged a new partner, Culture Amp, to conduct our employee survey, aiming to deliver deeper and more insightful data around employee matters. I'm really pleased with the detailed insights this has delivered.

87% of staff completed the survey in FY19, and over 90% of respondents said they understood how their work aligns to the overall Hays business objectives. Over 80% said they believed Hays creates lasting relationships and delivers outstanding results to our customers, and 79% described Hays as a great place to work. 72% of our people also said they believed that Hays values diversity.

That suggests to me that we are doing many things right for our people, although there is always room to improve.

We put our money where our mouth is though, and our training is industry-leading. Our new recruits spend over 20% of their first year in training and on-the-job development programmes. Our managers also receive extensive training and support, 12 days per annum on average. I'm proud to say that 3,497 colleagues were promoted. A further 73 transferred internationally, reinforcing our global culture while giving them exciting new opportunities overseas.

Ultimately, I want to build a business which the very best people aspire to join, and once they get here, we offer them unparalleled opportunities for personal growth so that they genuinely can see a way to spend their entire career at Hays with no limits to what they could achieve. After all, keeping the best talent within Hays is in the interest of our clients, our candidates and our shareholders. And with that I'd like to thank all my colleagues around the world for their hard work and commitment in making Hays the powerhouse it is today.

Q. What keeps you awake at night as a CEO?

A. The biggest risks to our business remain geopolitical and macroeconomic. A disorderly exit of the UK from the European Union would likely have a detrimental effect on business investment in the UK, and possibly even the EU. Candidate confidence may also suffer.

The US/China trade war rumbles on, and an upward spiral in trade tariffs across the globe is unhelpful. Political uncertainty has the potential to weaken investment confidence.

Hardly a day goes by without a news story on cyber threats to businesses. At Hays we take this threat extremely seriously and it occupies a central position at Board level. It is my job as CEO to be 'professionally paranoid' around the subject and do everything we can to protect our candidate, client and employee personal data.

It is a continual battle, but our IT, Legal and Operations teams' level of engagement gives me great comfort as CEO. However, we can never be complacent.

My main personal challenges are staying apace with innovation and industry developments to ensure we remain highly relevant and the industry leader. I'm also deeply passionate about the development of our people, their motivation and succession planning as the success of this business is based so heavily on the quality of our people. Making sure we have the right internal talent both for today and for the future is a vital part of my job, which means a continual emphasis on training and development at all levels.

Looking forward, I expect significant further technological changes and innovation, and plan to embrace these. Change will continue to present us with opportunities, as well as creating risks or threats to our business model. However, we have successfully navigated these in the past. Despite slower growth in our end markets in many places than a year ago, Hays is in the best shape possible, and we are wholly focused on positioning the Group to capitalise on long-term growth prospects.

Finally, we should never forget the real value we bring to our communities as over the last 12 months we helped over 30,000 clients find the talent they need to grow and more than 335,000 people find their next job. We have captured this in our new Purpose statement: Every day across our business, we benefit society by helping people succeed and enabling organisations to thrive – creating opportunities and improving lives. After your family and your health, your career is amongst the most important areas of your life. Helping organisations find the best talent, and helping people achieve success in their career is a hugely important thing, and I am honoured to be involved.

Alistair Cox
Chief Executive

OUR CASH STRATEGY

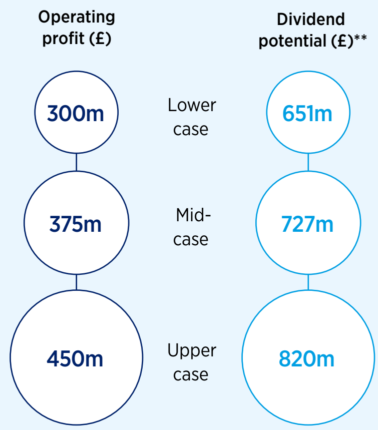
Our business model is highly cash-generative, creating significant opportunities for shareholder returns

At our Investor Day in November 2017, we detailed our ambition to deliver operating profit of between £300-450 million by 2022*.

Our business is highly cash-generative, meaning that if we hit the mid-point of this profit range, we can potentially deliver a cumulative £944 million of operating free cash flow (FY18 and FY19 cumulative total: £506.5 million).

After taxes, budgeted capex and pension payments, we calculate that £727 million could be available for returns to shareholders. In FY18 and 19, we have paid or proposed a cumulative total of £265 million in dividends.

Potential for material returns to shareholders based on achieving our five-year aspirations



Over £265 million in dividends paid or proposed since the start of our five-year plan ending 2022

* This assumed a continued benign economic backdrop, and a relatively business-friendly exit of the UK from the EU.

** Cumulative figure over five years.

"I am pleased to report a solid financial performance, with strong cash flow and the Board proposes a record total dividend of £137.9 million."

Paul Venables
Group Finance Director,
Hays plc

FINANCE DIRECTOR'S REVIEW

Financial highlights

I am pleased to report we delivered a solid financial performance in FY19. Turnover was up 7%, and net fees[(2)] by 6% on a like-for-like basis (5% on an actual basis), with operating profit[(3)] up 4% on a like-for-like basis (2% on an actual basis), to £248.8 million. We converted 106% of operating profit[(3)] into operating cash flow[(6)]. Our conversion rate[(4)], which remains industry-leading, decreased by 70bps to 22.0% (FY18: 22.7%) as net fee growth slowed through the year.

Our cash performance was strong, we ended the year with net cash of £129.7 million. As a result, the Board proposes to increase the final core dividend by 4% to 2.86p per share, resulting in an increase to the full-year core dividend to 3.97p per share, up 4% on prior year and covered 3.0x by pre-exceptional earnings[(3)]. Additionally, our record cash position and our highly cash-generative business model, enabled the Board to propose a special dividend of 5.43p per share, in line with our dividend policy.

Increase in Group net fee income
+6%
FY18: +12%

Conversion rate[(4)] of Group net fees into operating profit[(3)]
22.0%
FY18: 22.7%

Increase in operating profit[(3)]
+4%
FY18: +15%

Group consultant headcount up 4% year-on-year
7,782
FY18: 7,464

Total proposed and paid dividends
£137.9m
FY18: £128.4m

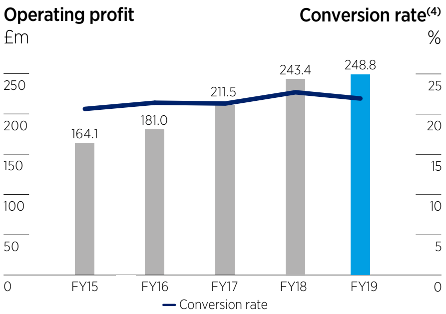
(1) Net fees of £1,129.7 million (FY18: £1,072.8 million) are reconciled to statutory turnover of £6,070.5 million (FY18: £5,753.3 million) in note 5 to the Consolidated Financial Statements.
(2) Net fees comprise Turnover less remuneration of temporary workers and other recruitment agencies.
(3) FY19 operating profit is presented before exceptional costs of £15.1 million, comprising £8.3 million relating to the equalisation of guaranteed minimum pensions for men and women in UK defined pension plans, and £6.8 million relating to restructuring charges, primarily in our European businesses.

Operating performance

Year ended 30 June (£s million)	2019	2018	Actual growth	LFL growth
Turnover(1)	**6,070.5**	5,753.3	6%	7%
Net fees(2)	**1,129.7**	1,072.8	5%	6%
Operating profit(3)	**248.8**	243.4	2%	4%
Cash generated by operations(6)	**263.0**	243.5	8%	
Profit before tax	**231.2**	238.5	(3%)	
Profit before tax (before exceptional items)	**246.3**	238.5	3%	
Basic earnings per share	**11.10p**	11.44p	(3%)	
Basic earnings per share (before exceptional items)	**11.92p**	11.44p	4%	
Core dividend per share	**3.97p**	3.81p	4%	
Special dividend per share	**5.43p**	5.00p	9%	

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 operations at constant currency.

During the year, macroeconomic conditions became increasingly difficult in many of our markets. Candidate confidence generally remained strong, however we saw clear signs of reduced business confidence and faced increasingly tough growth comparatives as the year progressed.



Foreign exchange

Overall, net currency movements versus Sterling negatively impacted results in the year. Over the course of the year to 30 June 2019, exchange rate movements reduced net fees by £8.8 million, and operating profit(3) by £3.4 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 £4.1 million respectively per annum, and operating profit 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 2019 averaged AUD 1.8105 and closed at AUD 1.8087. As at 27 August 2019 the rate stood at AUD 1.8156. The rate of exchange between the Euro and Sterling over the year ended 30 June 2019 averaged €1.1351 and closed at €1.1169. As at 27 August 2019 the rate stood at €1.1062.

The impact of these movements in foreign exchange rates means that if we retranslate the Group's full-year operating profit(3) of £248.8 million at current exchange rates, the actual reported result would increase by c.£5 million to c.£254 million.

Strong growth in International Temp and Perm

Net fees in Temp, which includes our Contracting business and represented 57% of Group net fees, increased by 6%. This comprised a volume increase of 6% and an hours/mix gain of 3%, partially offset by underlying Temp margins(5) down 50bps at 15.4% (2018: 15.9%). This was mainly due to a reduction in ANZ and UK&I Temp margins.

Net fees in Perm increased by 7%, with volumes up 4% and our average Perm net fee up 3%. Regionally, ANZ perm fees decreased by 4%, Germany grew by 16%, UK&I was flat and RoW grew by 11%.

Movements in consultant headcount

Consultant headcount as at 30 June 2019 was 7,782, up 4% year-on-year. ANZ increased by 1% year-on-year, Germany by 6%, the UK&I by 2% and RoW by 6%. Within RoW, China and the USA grew by 10% and 8% respectively. Group consultant headcount was decreased by 2% versus December 2018 as we aligned headcount to slower fee growth in the second half.

Current trading

In the first half of our financial year ending 30 June 2020, we will continue to overlap tough net fee growth comparatives versus the prior year.

While we will continue to selectively invest to capitalise on opportunities to reinforce our market leadership, we expect Group headcount growth in Q1 FY20 to be modestly up sequentially, including the impact of our normal seasonal graduate intake. Our increase will be below Q1 FY19, and lower than our normal rate.

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.

Australia & New Zealand

Market activity in Australia continues to be broadly stable sequentially, at high overall levels, albeit slightly below FY19. IT markets remain strong, although Construction & Property remains tough.

Germany

Economic conditions and market activity levels are weakening, with reduced business confidence and slower client investment decisions, particularly in the Engineering and Automotive sectors.

United Kingdom & Ireland

Market activity has recently softened, with signs that continued economic uncertainty is impacting business confidence in the private sector.

Rest of World

Conditions remain good across Asia, but are more mixed in the Americas. EMEA ex-Germany is broadly stable.

(4) Conversion rate is the proportion of net fees converted into pre-exceptional operating profit.
(5) 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 and specifically excludes transactions in which Hays acts as agent on behalf of workers supplied by third-party agencies and arrangements where the Group provides major payrolling services.
(6) FY19 cash generated by operations excludes the cash impact of exceptional items of £2.9 million paid in the year.

IFRS 16

IFRS 16 Leases will become effective for the Group from 1 July 2019, the start of FY20. The Group has elected to apply the modified retrospective approach whereby the right of use asset at the date of initial application is measured at an amount equal to the lease liability with no restatement to prior years. We estimate that the Group’s assets and liabilities will increase by c.£240 to c.£245 million and operating lease rental charges for those leases accounted for under IFRS 16, which are almost entirely property-related, are replaced by depreciation and finance costs.

We estimate that the overall impact of adopting IFRS 16 in FY20 will result in a decrease in the Group underlying profit before tax by c.£3 million, i.e. not material to overall Group profits levels, and have no impact on cash. This comprises a benefit to Group operating profit of c.£2 million, offset at the profit before tax level by an additional c.£5 million of non-cash finance charges, discussed further below.

Net finance charge

The net finance charge for the year was £2.5 million (FY18: £4.9 million). The average interest rate on gross debt during the period was 2.0% (FY18: 2.0%), generating net bank interest payable including amortisation of arrangement fees of £1.7 million (FY18: £1.6 million). The net interest charge on defined benefit pension scheme obligations was £0.5 million (FY18: £2.1 million). The Pension Protection Fund levy was £0.2 million (FY18: £0.3 million).

We expect the net finance charge for FY20 to be around £10 million. The increase versus FY19 is primarily due to c.£5 million of non-cash IFRS 16 interest charges as we report IFRS 16 for the first time, as noted above, and c.£2.5 million of non-cash increase in IAS 19 pension charge, given a lower defined benefit Group pension scheme surplus of £19.7 million (FY18: £75.9 million), and the reduced discount rate.

Taxation

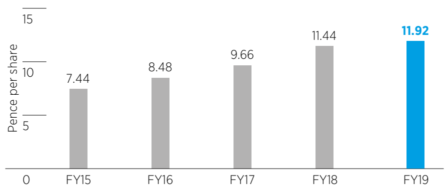
Taxation for the year on profit before exceptional items was £72.7 million (FY18: £72.7 million), representing an effective tax rate of 29.5% (FY18: 30.5%). The tax charge on total profits including exceptional items was £69.5 million, representing an effective tax rate of 30.1%. The effective tax rate reflects the Group’s geographical mix of profits and the impact of items considered to be non-taxable or non-deductible for tax purposes, with the decrease year-on-year primarily due to changes in these factors and the availability of tax losses to shelter income.

The Group’s effective tax rate for FY20 will be driven by these factors and we currently expect the rate to be broadly unchanged from the FY19 pre-exceptional rate of 29.5%.

Earnings per share

Basic earnings per share before exceptionals[3] increased by 4% to 11.92 pence (FY18: 11.44 pence), reflecting the Group’s higher operating profit[3], lower net finance charge and lower effective tax rate. Basic earnings per share after exceptionals decreased by 3% to 11.10 pence (FY18: 11.44 pence).

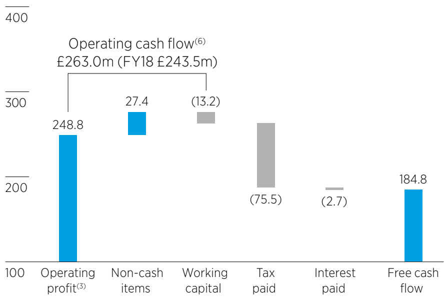
Earnings per share p



Cash flow and balance sheet

Underlying cash performance was strong with 106% conversion of operating profit[3] into operating cash flow[6] (FY18: 100%). This was a result of continued strong working capital management throughout the year and benefited from the lower rate of growth in our Temp and Contracting businesses in the second half of the year, which are relatively working capital intensive. Trade debtor days were unchanged at 39 days (FY18: 39 days).

Operating profit[3] to free cash flow[6] £m

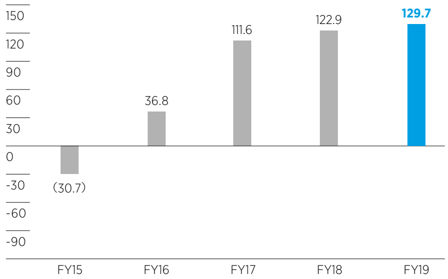


Capital expenditure was £33.0 million (FY18: £25.0 million), with the increase primarily due to investments in front- and back-office operational systems, particularly in Germany and the USA, cyber security and property. We expect capital expenditure to be c.£30 million for the year to June 2020.

Dividends paid in the year totalled £129.1 million and pension deficit contributions were £15.7 million. Net interest paid was £2.7 million, including an arrangement fee on our new debt facility, and the cash tax payment was £75.5 million.

We ended the year with a record net cash position of £129.7 million.

Closing net cash/(net debt) £m



Retirement benefits

The Group’s pension position under IAS 19 at 30 June 2019 has resulted in a surplus of £19.7 million, compared to a surplus of £75.9 million at 30 June 2018. The decrease in surplus of £56.2 million was primarily due to changes in financial assumptions (a decrease in the discount rate and an increase in the inflation rate) partially offset by an increase in asset values.

In respect of IFRIC 14, the Schemes 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 £15.7 million of cash to the defined benefit scheme (FY18: £15.3 million), in line with the agreed deficit recovery plan. The 2018 triennial valuation quantified the actuarial deficit at £43.6 million on a Technical Provisions (TP) basis and the recovery plan comprises an annual payment of £15.3 million from July 2018, with a fixed 3% uplift per year, over a period of just under six years. The scheme was closed to new entrants in 2001 and to future accrual in June 2012.

As previously announced, 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 (excluding GMP equalisation adjustments where applicable) 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. The impact of this transaction is reflected in the IAS 19 valuation as at 30 June 2019. 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, with the ultimate aim of a complete buyout.

Exceptional charge

During the year, the Group incurred an exceptional charge of £15.1 million in relation to the following items.

As mentioned in our half-year results, following the landmark legal judgment against Lloyds Banking Group in October 2018, ruling on the equalisation of guaranteed minimum pensions (GMP) for men and women in UK defined pension plans, we have recognised an exceptional charge of £8.3 million. This represented c.1.2% of the Schemes' liabilities. This charge is a non-cash item.

During the second half of the year, management performed a comprehensive operational cost review exercise, principally across the European country operations. The exercise led to the restructuring of a number of senior management positions. The restructuring costs represent the first significant restructuring of senior level management across the Group since 2011, and therefore the costs incurred of £6.8 million have been recognised as an exceptional item. The cash impact from the restructuring exceptional cost as at the balance sheet date was £2.9 million with a further £3.9 million cash outflow expected during FY20. During the year, we benefited from £2 million in cost savings related to the exceptional restructuring charges, with a further c.£3 million anticipated in FY20.

Capital structure and dividend

The Board's consistent 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 within a range of 2.0x to 3.0x full-year earnings[(3)], and to match increases in full-year earnings growth with core dividend growth. Assuming a positive economic 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 considering the financial performance of the Group, this year the Board proposes to increase the final core dividend by 4% to 2.86p per share resulting in an increase to the full year dividend to 3.97p per share, up 4% on prior year. As such, the full-year dividend will be covered 3.0x by pre-exceptional earnings[(3)]. Additionally, in line with the above policy on uses of excess cash and our highly cash-generative business model, the Board recommends the payment of a special dividend of £79.7 million, equivalent to 5.43p per share, up 9% on prior year.

In the first two years of our five-year plan ending in June 2022, we have either paid or proposed over £265 million in core and special dividends.

The final dividend and the special dividend will be paid, subject to shareholder approval, on 15 November 2019 to shareholders on the register on 4 October 2019.

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. On 8 November 2018, the Group extended the maturity of the facility until November 2023, with an option to extend to 2025, subject to lender agreement. This 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 30 June 2019: 189:1) and its leverage ratio (net debt to EBITDA) to be no greater than 2.5:1 (as at 30 June 2019 the Group held a net cash position). Under the terms of the renewed agreement, the Group has the option to calculate the financial covenants on a basis that exclude the impact of IFRS 16. The interest rate of the facility is on a ratchet mechanism with a margin payable over LIBOR in the range 0.70% to 1.50%.

The Group's UK-based Treasury function manages the Group's currency and interest rate 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; and the investment of surplus funds. 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 enhances liquidity by utilising 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 deposits. 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 that have an acceptable credit profile and limits its exposure to each institution accordingly.

Paul Venables
Group Finance Director
28 August 2019