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The strength of the recovery has been dramatic. We now see a clear route back to, and then exceeding, pre-pandemic levels of profit, faster than we envisaged even six months ago. With such confidence in our future, we are proposing to resume core and special dividends.

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THE YEAR IN REVIEW, AND THE YEARS AHEAD

Our Chief Executive, Alistair Cox, discusses the Group's performance in FY21 and looks ahead to our areas of focus and development in the future.

Q1. Given the Covid-19 pandemic continued to dominate economies in FY21, how would you characterise Hays' response to these challenges and emerging opportunities?

A. This year has been a year like no other. It began with many countries in lockdown and businesses still coming to terms with new ways of working remotely and adapting to highly dislocated markets. In the first six weeks of the pandemic, our Group fees fell by c.34%, a decline similar in scale to the Global Financial Crisis (GFC), but over a matter of weeks, not nine months. This was the steepest drop we have ever witnessed and many of our businesses were at break-even levels a year ago. How times change though and we ended the year experiencing the sharpest recovery in our history as organisations rapidly resumed hiring. Several of our businesses finished the year with activity levels well above pre-Covid levels and delivering monthly fee records, giving us good momentum as we start FY22.

It would have been impossible to predict such extreme fluctuations. The only constant throughout the year was the rapidly changing environment, meaning we were adapting daily to whatever the world threw at us. However, between these two extremes of collapse and steep recovery, there has been a wealth of stories of how we have navigated this most unpredictable of years. Let me relate just a few.

Firstly, let's not lose sight of how Covid-19 is a deep human tragedy that has affected many millions of people globally. It has fundamentally changed people's perspectives and has increased employee wellbeing as a priority for many companies, Hays included. Our number one priority has been – and remains – the safety of our colleagues, clients and candidates. Thankfully, relatively few of our Hays colleagues have contracted the virus, and I'm very relieved to say we have lost no one.

It goes without saying that at times of such great stress and anxiety, it has been crucial to provide support to our people, both professionally and personally. We invested heavily in supporting our people to cope with their daily challenges, for example implementing further wellbeing programmes for our colleagues. We also owe a huge debt to our IT teams around the world, who ensured we were fully equipped to operate effectively while working largely from home and our business did not miss a beat as we worked remotely.

It is at times like this that an organisation's true character becomes apparent, and I am incredibly proud of how our people around the world came together to provide mutual support and get through these times as a team. Despite the challenges, our employee engagement levels are very high and I would like to publicly thank all my colleagues for playing their part in such a team effort.

With such a difficult market backdrop however, strict cost control was vital. At the end of our first quarter, we had reduced our consultant headcount by 17%. However, our fees were down by considerably more, -29% in Q1, and we took the conscious decision to look through the worst of the fee downturn and protect our trained and experienced consultants as we knew we would need their talent again in the future. Our headcount reductions were materially lower than in previous downturns. Our ability to plan for the long term and carry that investment means we are now on the front foot to capture the many opportunities we see, and in the second half of the year as markets rebounded we increased consultant headcount by c.10%.

Our purpose as a business is to help others advance their own careers and realise their true potential. Never has this been more relevant as we helped clients and candidates deal with some of the toughest markets in history. Over the year, we placed c.280,000 people into a new job and helped literally



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Find out more about Hays Thrive
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millions of others with career advice. Our commitment is to be a lifelong partner to our candidates, which means helping them continuously develop their career, not just at the milestone event of changing jobs. One of the services we have successfully deployed to support this commitment is Hays Thrive, our leading free-to-use employee training and wellbeing portal which also helps candidate to re-skill and upskill. Overall, more than 850,000 training courses were undertaken on our online systems in the last year, equating to over 26 million minutes of online learning. That is real value added to people and their organisations and we will continue to introduce new innovative services to all those in the world of work.

Even in the periods of the strictest lockdowns, consultant interactions with clients and candidates remained very strong. As the year progressed and societies adjusted to the circumstances, our average consultant productivity increased significantly. Despite Group fees still being below pre-pandemic levels, we delivered record productivity in Q4. This gives us a strong platform to continue to add headcount across the business, giving us capacity to deliver strong fee and profit growth in FY22, FY23 and beyond.

When I think back to the start of the pandemic, the concept that people would go through an entire recruitment process virtually – including interviewing, receiving their offer, resigning and onboarding – was completely unproven. However, this has now become standard business practice and opens new ways for us to deliver our services. The necessity of working from home has shown us there are benefits in moving to our own hybrid way of working, combining the best elements of an office environment with the flexibility to work from home. Our people have been instrumental in helping to design local solutions which work for them and Hays, and I am certain there are huge benefits to be realised from this flexible approach.

Crises such as Covid are often the catalyst to step back and ask some fundamental questions about the future shape of business, particularly given the rapid pace of change in the world. Part of our own response has been our Strategic Growth Initiatives (SGI), our largest ever investment programme. This was somewhat contrarian given it commenced at the lowest points in our market. SGI is designed to accelerate our structural growth in the most attractive future markets.

Reinforcing our market leadership and gaining further market share is a top priority. There are many examples of this in our Technology recruitment business. Prior to



the pandemic our Technology fees were c.£250 million, making us a global leader in Technology recruitment, and it is our largest specialism by some distance, representing 26% of Group fees. However, there is much more we can do in undoubtedly one of the hottest and most attractive industry sectors in the global economy, and I see £500 million in Technology fees as a realistic ambition for Hays in the next five years. Another example of market leadership and investment is Hays Talent Solutions, our corporate solutions business, where we continued to win new clients around the world and grow our share of their recruitment spend.

Above all, our business is dependent on our people and the culture we have carefully built over many years. Despite the operational challenges presented by the pandemic, we continued to invest in our training and development programmes, which we aim to be the best in the industry, and as a result 2,607 colleagues were promoted in the year, a clear sign of how highly we value career progression. In the world of hybrid work, our culture is evermore important, as we onboard a significant number of new colleagues and adapt our business to the challenges and opportunities we face. Difficult as the pandemic has been, I am convinced Hays will emerge stronger and better.

Q2. Given the many impacts of the pandemic, how do you assess Hays' financial performance in the year?

A. No CEO can be happy to see operating profit⁽¹⁾ decline by 31% in the year. However, under the circumstances, I believe the Group performed well, delivering a fee and profit outcome for FY21 well above that which we might have earlier thought possible. We delivered several profit upgrades as trading improved. More importantly, the positive momentum we have built, particularly in Q4, has carried on into FY22.

Overall, Temp fees were relatively resilient and fell by 6%, while Perm was hit harder, down 10%. However, the recovery in our second half was increasingly led by Perm, rebounding faster after a steeper decline. In the second half, Perm increased by 18%, with Temp up 9%. This was unlike the period following the GFC, when the recovery was much slower and more Temp-led. That said, we also saw very encouraging signs in Temp as volumes increased, average assignment duration lengthened and average hours worked per Temp increased.

The financial year certainly started a lot tougher than it ended. Our quarterly net fee sequence through FY21 was -29%, -19%, -10% and +39%. We have never seen such a sharply positive turnaround in trading in any of Hays' 53 years – albeit we also hadn't seen a decline as fierce as the initial phase of the pandemic.

In FY21, overall Group net fees declined by 8% to £918.1 million. Against that though, 14 of our countries grew fees year-on-year, including six country fee records, illustrating the sheer level of volatility we have managed. Group operating profit⁽¹⁾ declined to £95.1 million, with £25.1 million in H1 and £70.0 million in H2.



The uncertainties necessitated by the pandemic caused us to closely manage our cost base, particularly in Q4 FY20 and at the start of FY21. However, the significant rebound in our markets meant that by the start of the second half we were investing and rebuilding headcount. Consultants increased by 4% year-on-year and by 10% in H2 FY21. Our headcount today remains c.10% below pre-Covid levels, but that gap is narrowing.

Importantly, as noted earlier we deliberately did not cut costs as severely as we did in the GFC. We took a very conscious, long-term decision to retain capacity above that normally required for the low fee levels experienced at the start of the pandemic, and to invest for the long term in structural growth sectors via our SGI programme.

Lockdown restrictions resulted in other variable and discretionary costs, such as travel, being significantly lower. Some of these will return as markets re-open, but I do expect we will permanently reduce overall travel costs as we continue to harness the benefits of video technology. This also supports our Net Zero journey (see page 52), and we have set an ambitious target to reduce our overall flight numbers by 40% versus pre-pandemic levels by 2025.

We ended the year with net cash of £410.6 million, and our strongest balance sheet ever. Cash conversion⁽²⁾ was excellent at 138%, and our credit control teams again deserve major acclaim for delivering record low debtor days of 33 days, which helped to improve our cash position by £42 million.

Given the strong recovery in Group profits, our strong balance sheet and our confidence in our outlook, the Board proposes to resume core dividends with one single payment for FY21 of 1.22 pence per share, representing 3.0x dividend cover. Our target dividend cover range remains 2.0 to 3.0x earnings. We are also able to return £150 million of surplus cash via special dividend in November 2021, equating to 8.93 pence per share.

Q3. How did performance vary by region?

A. Germany is our largest business and fees declined by 7%, with operating profit down 42% as we maintained our productive capacity. This masked a significant fee difference between the first and second half, with H1 down 26% and H2 up a strong 18% as business confidence rebounded. Contracting, 60% of German fees and where we provide freelance workers, was relatively resilient through the year with fees down 5%. We delivered particularly strong new contractor volumes in our fourth quarter, encouragingly ending the year with record contractor numbers for June.

Temp, which is mainly in Engineering and Manufacturing and where we employ temporary workers as required under German law, declined by 3%. This masked a first half down 45%, with the second half recovering strongly, up 79%. In H1 FY21 Temp fees were impacted by the under-utilisation of Temp workers and Temp severance costs. In H2 we delivered record levels of Temp utilisation as markets rebounded. The Temp business is now back at good levels of profitability and worker volumes are growing well and I remain convinced there is a significant long-term growth market for highly skilled Temps in Germany, which we are determined to continue to lead.

The final part of our market, Perm, was more difficult as client confidence was subdued and fees decreased by 18%, again delivering a stronger performance in the second half versus the first.

The sheer pace in recovery of German fees in the second half is a powerful reminder that, in my view, Germany remains the most exciting global recruitment market in the long term. This is driven by acute skill shortages as the industrial base transforms, an ageing population and the structural opening of the market to specialist recruitment agencies like Hays. As the undisputed market leader in Germany, we are determined to quickly build on our leadership position and generate very significant profits along the way.

I also think our Australia & New Zealand (ANZ) division performed well, with fees down 10% and operating profit down 21%. Our ANZ fees, which are 70% Temp, were less impacted at the outset of the pandemic, partly as we won contracts helping larger clients deal with the initial effects of the pandemic. Fees in the first half fell by 23% and were up 6% in the second, although profitability improved through the year and overall conversion rate of c.25% was the highest in the Group. Australia in particular has been faced with a series of sharp, localised lockdowns. Despite those, business confidence and activity levels have remained strong after the initial shock and the country is facing significant skills shortages as its borders remain closed. As long-standing market leaders in Australia, we will invest to further reinforce our position.

Given we have 28 countries in our RoW division, performance was understandably varied. That said, 14 countries delivered annual fee growth, with record performances in six countries including the USA and Malaysia, up 4% and 11% respectively.

Our ability to plan for the long term and carry that investment means we are now on the front foot to capture the many opportunities we see, and in the second half of the year we increased consultant headcount by c.10%.

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- (1) FY20 operating profit was stated before exceptional charges of £39.9 million, as detailed in note 5 to the Consolidated Financial Statements on page 134. There were no exceptional charges in FY21.
- (2) Cash generated by operations has been adjusted for the cash impact of lease payments of £50.0 million and £118.3 million of FY20 payroll tax and VAT paid in FY21. Cash conversion is the percentage of operating profit⁽¹⁾ converted into cash generated by operations.

Unless otherwise stated all growth rates are LFL (like-for-like) year-on-year net fees and profits, representing organic growth of continuing operations at constant currency.

EMEA ex-Germany is our largest sub-region, and fees fell by 5% in the year, with the first half down 20% and the second half up 12%. Spain and Italy were standout performers, with annual fees up 2% and 5% respectively. Our largest RoW market of France declined by 11%, and Belgium declined by 17%. Poland and Switzerland were more resilient with flat fees. In the Americas, alongside our record USA fee performance, Brazil grew by 9%. Canada was tougher, with fees down 15%.

In Asia, fees declined by 11% in the year, with the first half down 28% and the second half up 12%. Mainland China is now our largest Asian business and grew by a strong 17%, significantly outperforming Hong Kong SAR, down 32%. Malaysia made further excellent progress, continuing its success story with fees up 11%.

The sheer scale of structural growth opportunities for first-time outsourcing of recruitment across so many countries in our RoW portfolio gives me great confidence for our future.

Finally, in UK & Ireland, fees fell by 11% with operating profit down 31%. Temp, down 9%, was more resilient than Perm, down 14%. The Public sector also significantly outperformed the Private sector. However, the 10% rebound in fees in the second half was led by both Perm and the Private sector, as business confidence improved. We returned to solid levels of profit in the second half of the year in UK&I, and we enter FY22 with significantly improved momentum.

Overall, I am very pleased with how our businesses have faced up to the many challenges they have faced in FY21. Huge credit is due to all our colleagues globally who coped admirably through these exceptional times, delivering good results under the circumstances, keeping their people safe and displaying true Hays spirit in the way they responded to the challenges they faced. Reflecting on my own experience, it took us ten years to get back to prior peak profit levels after the GFC. Overall, the strength of the recovery has been dramatic. We now see a clear route back to, and then exceeding, pre-pandemic levels of profit, faster than we envisaged even six months ago.

Q4. Aside from the business's response to the pandemic, what were your strategic highlights of FY21?

A. There are major changes in the world of work – remote working and the opportunities that brings, new job roles with new skill requirements emerging constantly, organisations looking at ways of improving diversity and social mobility or businesses

and governments gearing up to tackle climate change. All of these represent big opportunities for Hays, and we are investing to make sure our business sits at the forefront of these new areas and is shaped to reflect the future markets. This is a core theme behind our SGI programme, launched in Q4 FY20, well before there were signs of stabilisation in our end markets. SGI identified over 20 accelerated headcount investment projects in attractive structural growth areas such as Technology, large Corporate Accounts, the Green Economy and Life Sciences in all our major markets.

It is distinct from the significant headcount investment, which is simultaneously taking place in almost all our key recruitment specialisms globally.

During FY21, SGI operating expenditure was c.£15 million, as we built management infrastructure and added c.250 consultants. We expect an increasing fee contribution from this investment during FY22 and we anticipate strong returns in FY23. We will invest a further c.£20 million in SGI in FY22, including c.350 consultants.

Let me make this real with an example. Our world is increasingly powered by technology, and we are already a leader in this exciting space. However, we believe we can be easily twice our current size and the sooner we get there, the better. That's why we are investing to double the size of our Technology business globally, with a special focus on the newer technologies which are rapidly emerging. Already organisations are struggling to find the skills they require in areas such as data science, artificial intelligence and cyber security. There are also huge new ecosystems and economies being built around technology platforms such as Salesforce, AWS and Microsoft Azure. All our data tells us this is a sector where there is a significant war for talent, and this is likely to continue as new roles and skillsets are constantly invented. We intend to capitalise on that by ramping up investment through our existing infrastructure and leadership teams to turn potential into fees and market leadership on a global basis. We have the infrastructure, experience, financial strength and ambition to deliver all this – something many of our competitors would find very hard to do.

In all our strategic initiatives, an underlying theme is to achieve a market-leading position, which means growing our market share. In a fragmented world, we see significant opportunities to win more business both in the Private and Public sectors. Larger client organisations offer substantial additional volumes to us as we grow our share of their recruitment spend, and we are building more

and larger dedicated delivery centres to efficiently fill the majority of jobs required by our larger clients, particularly in the UK, USA, Germany and Australia. The strength of our service offering through our outsourced recruitment services business, Hays Talent Solutions, combined with our investment in massive delivery capability, is designed to make us a true leader in servicing larger clients and our global network allows us to provide them with the required services wherever they operate in the world – again a position unique to ourselves.

We have long-followed a strategy of delivering equally effectively to both the Perm and non-Perm markets. The two sectors operate to different rhythms and we see benefits in both. Perm markets can rebound very quickly as confidence increases, as has been the case recently. However, non-Perm is also a preferred way of working for many talented individuals who thrive as freelancers or contractors in buoyant markets such as Technology, Life Sciences and Engineering. As an example, around 80% of our Technology fees are non-Perm. We will therefore continue to build scale in both, but we see lots of opportunities to build bigger non-Perm businesses in many markets where we are currently under-leveraging our potential. We have the systems, experience and capital to do this, all of which are significant barriers to entry in this sector. Furthermore, the 'stickiness' of the revenue stream from non-Perm arguably delivers a higher quality of earnings than a similar Perm placement.

While our business starts and ends with the people in it, I passionately believe that even the best people can be even better if you give them the right tools. We call that the 'art and science' of recruitment, combining the creativity and human skills embodied in our people with technology and data science. It means that alongside our training programmes, we are constantly looking for technology enablers that free up our consultants to do more with their time. There are no shortcuts to achieving this though, and looking at our own journey, we have gone through three distinct phases of evolution over the last decade. Firstly, we put in place the modern infrastructure we needed to exploit a multi-channel world. Secondly, we utilised that multi-channel world to find and engage with millions of people daily. And now, our third phase, leveraging our databases to draw insights to help our consultants make the perfect match, every time and at a pace and scale not seen before.

That's an exciting place to be and there are many examples of how our digital journey is bringing ever-greater value to our markets. For example, in FY21 we further invested in our own market-leading tools, including our 'Hays Hub' recruitment platform, which helps schools find the Temp talent they need quickly and securely, ensuring world-class safeguarding and compliance processes. The Hub has created a whole new way of enabling schools to find the teachers they need, and now has c.5,800 schools and 200,000 teachers on the platform. The Hub is also being used as a training portal for teachers as it increasingly becomes an essential tool.

The Hub has other applications too and we are taking it into the Social Care sector, where early results are extremely positive, as well as introducing it into Australia.

We build a lot of our technology ourselves, owning the intellectual property. However, we also see huge benefit in collaborating with other industry leaders, incorporating their cutting-edge technologies into our own operating systems for the benefit of our clients and candidates.

In FY21, we renewed our innovative relationship with LinkedIn, where we now have almost five million followers worldwide, engaging regularly with our content. There are many other examples of similar engagement platforms to ensure our clients have unprecedented access to the very best talent in the world, including Xing where we recently celebrated our fourth anniversary working together.

Of course, nothing is ever perfect, and I constantly wish we were further ahead in all our plans as our ambition is so high. While the rapid pace of economic recovery in our second half was incredibly welcome, we would have benefited from greater numbers of consultants in our third and fourth quarters to service burgeoning demand. However, given we protected our productive capacity by more than we did in the GFC and began investing in SGI projects early, we enter FY22 on the front foot. I absolutely expect us to build a bigger business than we ever had before the pandemic, and an even better one too.

Q5. What were the main Environmental, Social & Governance (ESG) initiatives and progress made during FY21?

A. Underpinning our purpose as a business is our core Hays value of always trying to do the right thing. Our work in ESG is central to this, and I am delighted to say we made significant progress in FY21. What we do for a living is, in my view, a valuable social service. In addition



to the over 280,000 people we placed in work, we have helped many millions of others with advice, guidance and training towards their next role. We are investing in services to make us lifelong partners to our candidates and clients and bring real value to the world we live in.

Having endorsed two United Nations Sustainable Development Goals (UNSDGs) in FY20 – Gender Equality and Decent Work & Economic Growth – we added a third goal in FY21, Climate Action. Protecting our planet should be a goal of any business and as part of our detailed Environmental strategy I am delighted to say that Hays was a carbon neutral company for the first time in our history in FY21, based on our Scope 1, Scope 2 and selected Scope 3 Greenhouse Gas (GHG) emissions. We have committed to a path to Net Zero GHG emissions and have put in place permanent policies which should halve our Group GHG emissions, versus pre-pandemic level, by 2025. This includes a target to reduce air travel by 40%. We are also in the process of registering a Science-Based Target (SBT) to support the Paris Agreement on climate change.

We are increasingly asking sustainability questions of our wider supply chain, and I look forward to reporting more on this next year. We also have a big part to play helping find the talent the world needs as it tackles the climate challenge. Not only is this a business opportunity for us, it is also a powerful place to find ourselves as organisations globally look for the new skills that will be required.



SUSTAINABLE DEVELOPMENT GOALS



We are investing to double the size of our Technology recruitment business from £250m off fees pre-pandemic to £500m in the next five years, with a special focus on new technologies which are rapidly emerging.

Equality in all its forms – whether it be racial, gender, sexuality, physical ability, age or any other category – is core to building a sustainable society. Responsible companies should have Equity, Diversity & Inclusion (ED&I) at their heart, and it's correct that the subject has obtained far greater prominence in recent years.

Our Global ED&I council made excellent progress in the year. I am delighted to say that for the first time in our history, the Board has set stretching targets on female senior management. By 2025, we have committed to reach a level of 45% female leaders (FY21: 42% female) among our senior leadership of ~560 individuals, and to reach 50% by 2030.

Our diversity work also extends to clients and we hold a privileged position to help our clients foster true equity and diversity in their own workforces. Hays Australia launched its new Diversity Data collection portal for our Temp workers, which will provide employers with accurate and secure diversity data, helping them to build more diverse workforces. We continue to strive for greater workforce representation of Australian First Nations people, and in the last year c.5% of total candidates placed in our top-10 Australian clients identified as indigenous. By helping clients globally tackle these issues, we can have a very leveraged impact on shaping the workforces of the future.

While we help millions of talented professionals grow their own career, there are countless others who would not normally be able to access our services. That's why we launched our global Hays Helps programme in FY21, focusing on aligning the Group's volunteering and charitable activities on projects which support our purpose of creating opportunities and improving lives. We aim to help six sectors of society – workers living with a disability; ethnic minorities; LGBTQ+ communities; under-utilised talent such as caregivers, veterans or indigenous peoples; the mature aged workforce, and young people.

We have ensured every employee can take at least one paid Volunteering Day per year to allow them to lift up people's chances of employment – that's potentially over 10,500 days of support per year. For example, in the UK we worked with End Youth Homelessness to help homeless people get into the workplace, assisting with CV writing, job applications and interview coaching. In Germany we worked with Initiativ Gruppe München to provide coaching and interview simulation to support migrant women in gaining professional qualifications. In France, our colleagues raised over €11,000 to support

two associations, which offer assistance to jobseekers experiencing difficulties in accessing or returning to work. Our colleagues also ran workshops to help attendees find employment. Overall, I am really excited by the difference Hays can make to people's lives, helping them to progress in the world of work.

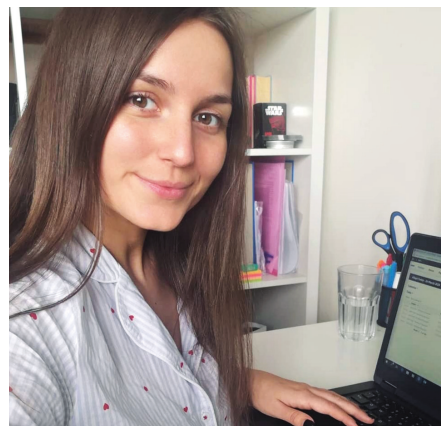
Q6. Has there been any change in your assessment of the industry megatrends?

A. Arguably the pandemic has accelerated the recruitment market megatrends we have long identified: increased demand for high-skill, non-Perm working; candidates desiring greater flexibility around building their careers; increased levels of outsourcing to specialist agencies and greater use of technology and digitalisation.

We are ideally placed to help our clients plan their own growth, and how they might access the resources needed to deliver that. We help them navigate the increasing complexity of workforce and legislative environments, ensuring they 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.

The world has proven that flexible and remote working at scale works. This has major positive implications, including potentially widening the geographic areas from which roles can be hired for. With a truly global network and meaningful scale in all key geographies, we can help our clients understand how they can access the world's best talent, even if it is not available locally.

Increased digitisation was an inevitable force before the pandemic – however the pace of change has significantly accelerated and that has created its own pressures on the demand for many skillsets. In our skill-short world, the competition for the best talent gets fiercer by the day. It is our job to ensure that our clients win that competition, which requires two things: leading access to the best talent worldwide, and a unique, strong and long-lasting relationship with those individuals. Of course, organisations are free to recruit their staff themselves as they have always been able to do. However, our aim is to have the very best supply of skills possible, meaning that they will always find what they are searching for by using Hays. Our brand and marketing approach, our investment in technology tools, our rich content streams to support our candidates' own career journeys are all part of our jigsaw puzzle to build the very best talent pools available in the world,



so that we are confident of filling every job our clients give us. That's difficult for in-house teams or smaller recruitment businesses to replicate.

In addition, the past few years have seen the emergence of a new industry megatrend which we are increasingly targeting – the Green Economy. The battle against climate change is the most significant problem mankind needs to solve. To meet Paris Agreement targets, the International Labour Organisation estimates around 24 million new jobs will be required. Many markets are already skill-short, so adding in new demands for talent only makes the job harder. On top of this, the Paris Agreement is only one aspect of Sustainability – the actual number of jobs needed to solve the issues could be far higher as buildings are retrofitted to improve efficiencies, transportation is transformed, and technology underpins a sea change in how business is done. This therefore represents a major new opportunity for us to establish the leading provider of talent into the Green Economy. We start from a good place as a global leader in Technology recruitment, the leading supplier of E-mobility talent into the German automotive sector and the global leader in Construction & Property recruitment, but we see a valuable role to play as the 'go-to' organisation for all those wishing to develop their career in this exciting and vital area.

So yes, we are designing our strategy to purposefully capitalise on the megatrends we see in the world of work and they are even more relevant to us today. Our aim is to position ourselves exactly where the demand for future skills will be and in any market where supply is insufficient to meet demand, there is tremendous value to be gained. That is our prize.

Q7. Are you considering re-introducing long-term financial targets for Hays?

A. In any walk of life, it's difficult to know where you are headed or how much progress you are making unless you have a target. Hays is no exception and setting long-term financial targets acts as an internal strategic guide for us, helping to focus our ambitions and target our resources in optimal areas. Our five-year plans also convey the scale of the opportunities and a feasible level of our future operating profit, assuming a stable economic backdrop. There is so much structural opportunity in our business, it's important to illustrate that 'art of the possible'. Under our 2013 plan, we successfully delivered a near doubling in operating profits to c.£250 million. Our subsequent 2022 plan (announced in 2017) was de-railed by the pandemic, and prior to that, to an extent by

the global trade war. Neither events were predictable, but that should not stop us articulating our ambition and scale of potential profit growth, given a more stable economic backdrop free of such shocks. So, once we have a solid line of sight on sustained recovery in our markets, our plan is to conduct an investor day, at which we will present our next five-year plan. There remain many chapters to be written in the pandemic story and that of the subsequent recovery. However, despite that uncertainty, our ambitions are undiminished and I am hopeful that any long-term profit targets we set out will at a minimum be consistent with our former 2022 plan, namely an operating profit range of £300 to £450 million.

Q8. What is the Group's core dividend policy, how will surplus capital be returned to shareholders and what are your future priorities for capital?

A. The Group's profitability, cash generation and working capital management have been significantly better than our modelled scenarios at the time of our £196 million equity issuance in April 2020. The Board has therefore announced a resumption of our core dividend at 3.0x earnings cover, with a single payment proposed for FY21. Our target core dividend cover range remains 2.0 to 3.0x earnings.

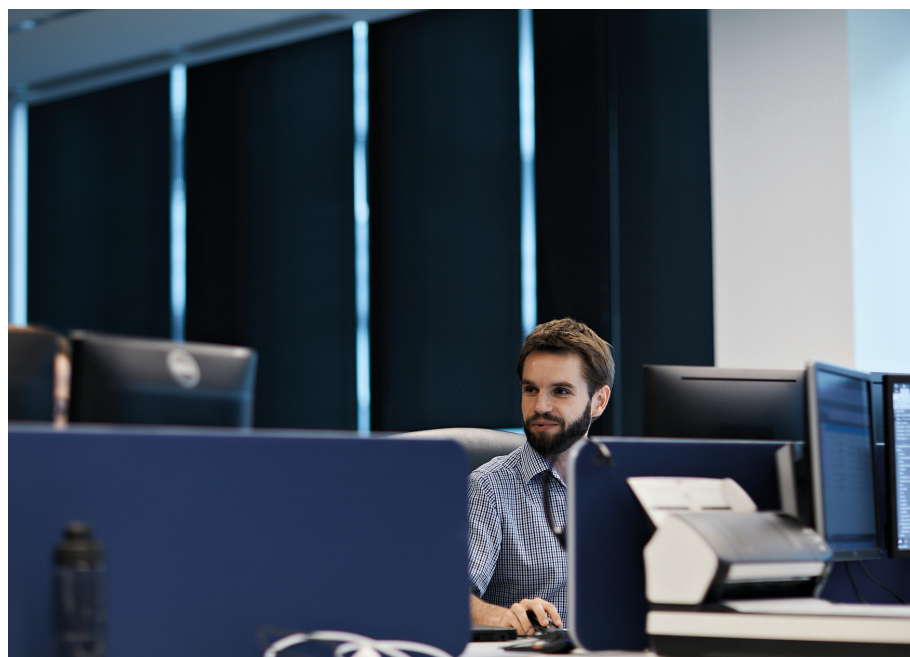
We are a highly cash-generative and relatively asset-light business. Paying cash to shareholders has long been a central part of our investment case – we paid c.£374 million in core and special dividends between FY17-FY19. At the time of our equity issuance, we

were very clear with shareholders that should we not need this additional capital, we would return it as soon as practically possible.

In February we announced that the Board had identified £150 million of surplus cash, which we expected to pay to shareholders in two phases, commencing with £100 million to be declared at our prelims. Given the sequential fee growth and recovery in operating profit in the second half, together with confidence in future growth prospects, the Board now proposes to pay this via one special dividend of £150 million, to be approved by shareholders in November 2021.

Our first priority when allocating capital has – and always will be – internal investment opportunities, such as building capacity and capability across the business, our SGI programme and investments in consultant productivity tools. We face so many structural long-term growth opportunities that we must continue to invest to fully capitalise on them. Each year we seek to get that balance right between delivering short-term profit growth, and re-investing profit to build our business even faster. While the short term is obviously important, we are running the business to ensure Hays remains a winner in the long term and that does mean we sometimes temper our short-term profit gain to accelerate our longer-term strategy.

That said, our capex requirements are relatively low at £20-30 million per annum. Our business model is therefore highly cash-generative, and the Board expects to resume ongoing 'trading' special dividends in FY22, and to return material special dividends over



time. Our policy for such special dividends, as we set out at our half-year results, will be based on paying cash above our cash buffer of £100 million at each financial year-end, after adjusting for expected working capital rebuild of £130 million. This will reduce as our Temp book grows and working capital increases, including any normalisation in client payment terms. In the second half, we saw a £20 million working capital outflow, which reduced this to £110 million.

Q9. On technology, has the risk of disruption from new entrants and platforms changed?

A. The pandemic has accelerated the digitisation of many industries, ours included. All businesses are challenged to adapt their business models to this new reality. The winners will be those who deliver the services their markets need in a way that best suits their customers. That can be disruptive as organisations build around their customers, but it can be hugely value-creating too. Our task is to build on what we already have, make it ever better and more relevant to our clients and candidates, try new things and learn in the process. We have the advantage of being highly profitable, financially strong and with a brand, team, infrastructure and set of data second to none in our industry.

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. While the advent of technology may have made it easier to apply for multiple roles as a candidate, it has not made it easier for organisations to sift through vast volumes of applications to find exactly the talent they are looking for. Organisations want the 'right' person and technology to date has failed to achieve that goal alone. Equally, the pace of change in areas such as social networks makes finding the right candidates ever more complex as they move between communities.

The secret of good recruitment however is based on ongoing relationships formed with clients and candidates and the advice provided to each, which is a very human thing. That is where we win – we invest in forming and nurturing those relationships with literally millions of people and organisations so that we become the expert advisor to both parties. To do that we are constantly innovating on how we reach candidates and build deep talent pools in every specialism. We then proactively engage with each member of those pools via multiple channels, strengthening our relationships

over many years. When we consider that the majority of jobs we fill every day are by individuals on our database who we know well, the value of our data becomes clear. It is a highly valuable asset and something we protect and nurture daily.

The other side of our equation though is people – technology alone does not create the perfect fit between candidate and opportunity. Each of our consultants is a trusted advisor to their clients and candidates and true experts in their fields and we constantly invest in them to ensure they remain so. Putting together the best people trained as real experts, leading technology to help them deliver the best service and insightful data is a winning combination that has taken years to build and is difficult to replicate. I believe that makes us unique and best positioned to win both against potential disruptors as well as traditional recruiters. However, there is no room for complacency, and we are constantly vigilant to technological change as our world continues to evolve.

Q10. How is Hays' culture helping the business to navigate the new era of work?

A. We are hugely proud – and protective – of our culture. We think it's unique and it sets us apart in our industry. Client service, integrity, passion and doing the right thing hold true in each of our 256 offices every day. We aim to live these values every day and they guide us through whatever challenges our world throws at us.

Any organisation's true personality becomes apparent when it is under stress. The last 18 months have been a huge test in so many ways, but I am incredibly proud of how our people continued to rally to the common cause and stood tall in the face of challenges. Our consultants engaged with their clients and candidates, generating greater levels of activity and interactions than pre-Covid and that resulted in record productivity in Q4 FY21. Our IT colleagues worked tirelessly to ensure our systems coped with the stresses of hybrid work patterns, ensuring no loss of operating performance. Our credit control teams have once again reduced our debtor days to record low levels.

Supporting morale within our own teams has been a top priority as we have all witnessed anxiety or loss over the last year. We have redoubled our efforts to ensure that every single one of us feels connected, informed, reassured and supported, and there is a palpable sense of community and 'togetherness' across the business today.





We have also learned invaluable lessons which allow us to adapt our business quickly, whether that's designing more flexible day-to-day working schedules or creating new technology tools to support our managers in managing their teams remotely.

Our efforts are being recognised in the public eye, winning numerous awards throughout the year. In France, Hays was awarded the Gold Trophy in the 'Recruitment Consultancy' category by Le Monde du Chiffre. In Germany, we won AUBI's 'Best place to Learn' award for employers who stand out due to excellence in training and sustainably promoting young talent. In Poland, we secured 1st place in Recruitment and Executive Search categories in Book of Lists 2020/2021 ranking.

Overall, Hays also secured a 'Top Employer' award certified by the Top Employers Institute.

We don't achieve these accolades without hard work. I'm extremely proud of the success we have had from the Hays 'International Leadership & Management Programme' (ILMP), now in its fourth year, designed to best equip our senior people to lead successful businesses in an increasingly complex world of work. To date, over 100 of our global leaders have completed the programme and it will continue in FY22.

Similarly, we continue to innovate our training for new Associates and Managers so that it remains industry-leading. We maintained total classroom and on-the-job training time at c.20% of each Associate's first year, with Managers receiving on average 12 days of annual training.

Q11. What keeps you awake at night as a CEO?

A. Our markets have rebounded far stronger and faster than anyone could have envisaged a year ago. Given the positive momentum we now see across our business, most of my attention is focused on capitalising on the many opportunities in front of us.

Our success in achieving this will be underpinned by the quality of our people. I'm deeply passionate about their development, motivation, and our succession planning. Making sure we have the right internal talent for both today and for the future is a vital part of my job.

Supported by our financial strength, we started making strategic investments well before our end markets started to recover. This gave us an excellent head start for growth but there remains a lot to do. My ambition is that we emerge from the pandemic much stronger in every way, with significant profit runway ahead of us.

The pace of change in digitalisation has been breath-taking in the last few years, but it will only accelerate from here. This has big implications for all businesses, and as well as being at the forefront in helping clients find the digital talent they need to grow, we are continuously seeking to improve how clients and candidates engage with Hays and how we deliver back to them. Superior customer service is what should stand us apart from our rivals and we are actively designing how that experience can be improved across everything we do.

With increased digitalisation comes greater cyber threat. 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 systems and our candidate, client and employee 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.

We have all learned valuable lessons in the last year, me included. Those lessons are helping us transform our business in so many ways and we have raised our already-high ambitions for the Company to new heights. There's no reason why we cannot achieve them if we challenge ourselves hard, set aspirational targets and relentlessly focus on doing whatever we need to do to get there.

The ongoing cyclical recovery is a strong tailwind for us, but the long-term structural opportunities are where the real value lies, and we want to open up those opportunities sooner rather than later. But we must never forget that our business is about helping people. Last year we helped more than 280,000 people find their next job, and over 40,000 clients find the talent they need to grow. That's massive scale on a global stage, but next year those numbers will be even larger.

Never has our role in helping people develop their careers and finding highly skilled workers been as relevant. What we do is important to so many people's lives and I am honoured and privileged to lead a business that makes such a contribution to our societies and communities.

Alistair Cox

Chief Executive



Recovery from the pandemic accelerated in the second half with strong sequential fee and profit growth. As a sign of our confidence, we have resumed dividend payments.



Paul Venables

Group Finance Director,
Hays plc



FINANCE DIRECTOR'S REVIEW

Financial overview

Although the impact of the pandemic meant FY21 began in arguably the toughest macroeconomic backdrop we have ever faced, Group fees stabilised during the summer of 2020 and began to show strong sequential improvement from September 2020 onwards. Our quarterly fee growth through FY21 was -29%, -19%, -10% and 39%, and we have never before seen such a sharply positive sequential improvement in trading in any of Hays' 53 years. Encouragingly, June 2021 delivered our strongest fee performance since the start of the pandemic.

Our turnover declined 6% and net fees⁽²⁾ fell 8%. Operating profit⁽³⁾ fell 31% to £95.1 million. This represented a Group conversion rate⁽⁴⁾ of 10.4% (FY20: 13.6%). Driven by the significant recovery in fees in the second half, operating profit in the second half was £70.0 million, representing an H2 conversion rate of 14.1%⁽⁴⁾.

Our cash performance was excellent, and we ended the year with net cash of £410.6 million. We converted 138%⁽⁸⁾ of operating profit⁽³⁾ into operating cash flow⁽⁵⁾, driven by excellent credit control with debtor days reducing to a record low 33 days.

Given the strong recovery in Group profitability, high levels of cash generation and confidence in our outlook, and as previously announced, the Board proposes to resume core dividends with one single payment for FY21 of 1.22 pence, representing 3.0x dividend cover. Our target dividend cover range remains 2.0 to 3.0x earnings.

At our half-year results we also announced that the Board had identified £150 million of surplus cash, which we expected to pay to shareholders in two phases, commencing with £100 million to be declared at our prelims. Given the Board's confidence in our

Decrease in Group
net fee income

(8)%

FY20: (11)%

Decrease in operating profit⁽³⁾

(31)%

FY20: (45)%

Conversion rate⁽⁴⁾ of Group
net fees into operating profit⁽³⁾

10.4%

FY20: 13.6%

Group consultant headcount
up 4% year-on-year

7,190

FY20: 6,900

Year-end net cash⁽⁷⁾

£410.6m

FY20: £366.2m

(1) Net fees of £918.1 million (FY20: £996.2 million) are reconciled to statutory turnover of £5,648.4 million (FY20: £5,929.5 million) in note 6 to the Consolidated Financial Statements.

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

(3) FY20 operating profit and earnings per share were stated before exceptional charges, as detailed in note 5 to the Consolidated Financial Statements on page 134. There were no exceptional charges in FY21.

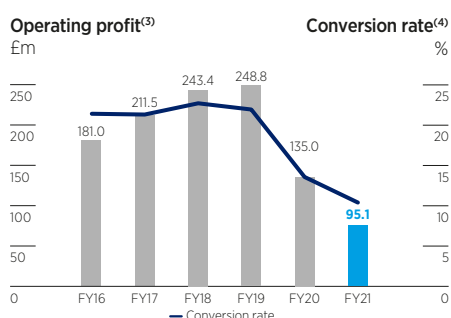
(4) Conversion rate is the proportion of net fees converted into pre-exceptional operating profit.

Operating performance

Year ended 30 June (£m)	2021	2020	Actual growth	LFL growth
Turnover ⁽¹⁾	5,648.4	5,929.5	(5)%	(6)%
Net fees ⁽²⁾	918.1	996.2	(8)%	(8)%
Operating profit ⁽³⁾	95.1	135.0	(30)%	(31)%
Cash generated by operations ⁽⁵⁾	130.8	247.4	(47)%	
Profit before tax	88.1	86.3	2%	
Basic earnings per share	3.67p	3.14p	17%	
Basic earnings per share (before exceptional items)	3.67p	5.28p	(30)%	
Core dividend per share	1.22p	0.0p	-	
Special dividend per share	8.93p	0.0p	-	

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.

future growth prospects, this is now proposed via one special dividend of £150 million or 8.93 pence per share, to be approved by shareholders in November 2021. The Board also expects to restart ongoing special dividends in FY22.



Foreign exchange

Overall, net currency movements versus sterling positively impacted results in the year, increasing net fees by £1.1 million, and operating profit by £2.6 million. In the first half, the impact of exchange meant that Group fees increased by £4.0 million, while in the second half the strengthening of sterling, particularly against the US dollar and our Asian currencies, reduced reported Group fees by £2.9 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

£0.9 million and £3.3 million respectively per annum, and operating profit by £0.3 million and £0.6 million respectively per annum.

The rate of exchange between the Australian dollar and sterling over the year ended 30 June 2021 averaged AUD 1.8037 and closed at AUD 1.8418. As at 24 August 2021 the rate stood at AUD 1.8908. The rate of exchange between the euro and sterling over the year ended 30 June 2021 averaged €1.1294 and closed at €1.1652. As at 24 August 2021 the rate stood at €1.1676.

The impact of these movements in exchange rates means that if we retranslate the Group's FY21 operating profit of £95.1 million at current exchange rates, the actual reported result would decrease by c.£5 million to c.£90 million. Clearly, foreign exchange movements may have a larger negative impact as Group operating profit increases in FY22.

Relative resilience in Temp, although Perm rebounded more strongly

Fees in Perm decreased by 10%, driven by an 11% decline in placement volume and a 1% increase in our average perm fee. Regionally, ANZ perm fees decreased by 6%, Germany by 18%, UK&I by 14% and RoW by 8%. Overall, underlying wage inflation started to increase in the second half, with pockets of higher inflation in certain skill-short markets.

Net fees in Temp, which incorporates our Contracting business and represented 61% of Group net fees, decreased by 6%. This comprised an 8% decline in volume and a 20bps decrease in underlying Temp margin⁽⁶⁾

to 14.5% (2020: 14.7%), due to mix, with greater resilience in our large Corporate accounts business (2020: 14.7%), partially offset by a 3% increase in mix and hours, with relative resilience in our higher paid Technology and Life Sciences specialisms.

In the second half, the recovery was increasingly led by Perm markets, with Perm fees up 18%. Temp fees grew by 9% in H2 and we saw some very encouraging trends, with good volume growth, a lengthening in average assignment duration and high average hours worked per Temp.

Movements in consultant headcount

Group consultant headcount at 30 June 2021 stood at 7,190, up 4% year-on-year and up 10% in the second half, and was c.10% below pre-pandemic levels.

Current trading

We have made a good start to FY22 with strong activity levels across all our main markets. Temp and Contracting markets overall are performing well, with higher-than-normal levels of contract extensions, and high average hours worked per Temp. Conditions in Perm are strong.

Candidate confidence is high, and there are clear signs of skill shortages and wage inflation in certain industries, particularly Technology and Life Sciences.

We expect Group headcount at the end of Q1 FY22 will increase by c.5% versus 30 June 2021, driven by broad-based ongoing investment in our key specialisms together with our FY22 SGI. In addition to our headcount additions in H2 FY21, these investments will help drive further sequential fee growth in FY22 and beyond. Our expectation is that total SGI investment in FY22 will be c.£20 million.

Australia & New Zealand

The strong sequential fee improvement we observed in Q4 continued in July and August. It is too early to quantify the negative impact on ongoing business activity and sentiment from the recent lockdowns implemented in most states, especially NSW and Victoria, and how long this will last.

- (5) FY21 cash generated by operations of £130.8 million was adjusted for the cash impact of lease payments of £50.0 million, and £118.3 million of FY20 payroll tax and VAT deferred paid in FY21. FY20 cash generated by operations of £247.4 million was adjusted for the cash impact of lease payments of £46.4 million and the £118.3 million of payroll tax and VAT deferred at 30 June 2020.
- (6) The underlying Temp 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.
- (7) FY20 net cash excludes £118.3 million of deferred tax payments.
- (8) Operating cash conversion represents the conversion of pre-exceptional operating profit⁽³⁾ to cash generated from operations⁽⁵⁾.

Germany

Conditions are strong and we have a record number of contractors for this time of year, helped by new assignments and a slightly higher renewal rate on June-ending assignments than normal. We are seeing good sequential growth in Temp volumes, and Perm markets are strong.

United Kingdom & Ireland

Conditions are strong, particularly in Perm, and we are seeing good sequential fee improvement.

Rest of World

Conditions in the Americas are strong, led by the USA. In Asia, Mainland China continues to have good momentum, and EMEA is seeing good market conditions.

IFRS 16 – Leases

The Group applies the modified retrospective approach whereby the right-of-use asset at the date of initial application was measured at an amount equal to the lease liability. The Group's right-of-use assets decreased to £190.3 million (2020: £216.6 million) while lease liabilities reduced to £201.1 million (2020: £228.7 million). Depreciation of right-of-use lease assets was £45.1 million (2020: £45.5 million) and lease interest charges were £5.0 million (2020: £5.3 million).

Net finance charge

The net finance charge for the year was £7.0 million (2020: £8.8 million). Net bank interest payable including amortisation of arrangement fees was £0.6 million (2020: £1.1 million). The non-cash interest charge on lease liabilities under IFRS 16 was £5.0 million (2020: £5.3 million) and the non-cash interest charge on defined benefit pension scheme obligations was £1.1 million (2020: £1.9 million). The Pension Protection Fund levy was £0.2 million (2020: £0.2 million).

We expect the net finance charge for FY22 to be around £8.0 million, with the increase resulting from a higher non-cash net interest charge on the Group's defined benefit pension scheme.

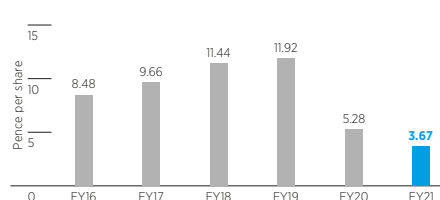
Taxation

Taxation for the year on profit was £26.6 million (2020: £46.2 million before exceptional items), representing an effective tax rate of 30.2% (2020: 36.6%). The decrease in the effective tax rate (ETR) reflects the Group's geographical mix of profits, the impact of reduced trading losses in certain countries and the impact of the partial recognition of certain UK deferred tax assets.

Earnings per share

Basic earnings per share before exceptional items decreased by 30% to 3.67 pence (2020: 5.28 pence), reflecting the Group's lower operating profit⁽³⁾ given the significant negative trading impact of the pandemic, and a 10.7% increase in our average number of shares as a result of our equity placement in April 2020. This was partially offset by our lower effective tax rate and lower net finance charge. As there were no exceptional items in FY21, basic earnings per share after exceptional charges was also 3.67 pence, representing an increase of 17%⁽³⁾ (2020: 3.14 pence).

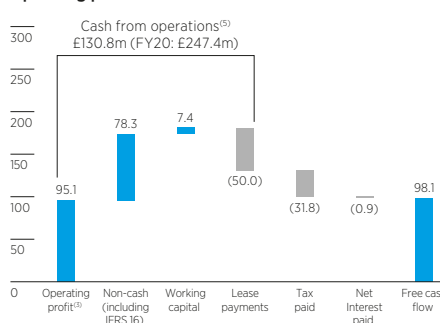
Earnings per share⁽³⁾ p



Cash flow and balance sheet

Underlying cash performance was strong with 138%⁽⁸⁾ conversion of operating profit⁽⁵⁾ into operating cash flow⁽⁵⁾ (2020: 183%⁽⁸⁾). This was a result of continued strong cash generation, driven by a very strong performance by our credit control teams globally with average trade debtor days decreasing to 33 days (2020: 36 days).

Operating profit⁽⁵⁾ to free cash flow £m



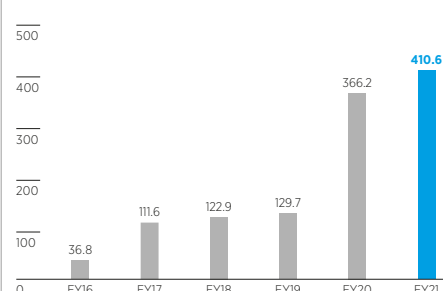
Capital expenditure was £18.8 million (2020: £25.8 million), with continued investments in cyber security, front-office systems and automation of our back-office systems. We expect capital expenditure to be c.£25 million for FY22.

No dividends were paid in the year (2020: £121.6 million) and pension contributions were £16.7 million (2020: £16.1 million). Net interest paid was £0.9 million (2020: £1.4 million) and corporation tax payments were £31.8 million (2020: £29.8 million).

During the year we also purchased 5.8 million shares under our treasury share purchase programme, at an average price of 109.9 pence per share. The shares will be held in treasury and will be utilised to satisfy employee share-based award obligations over the next two years.

We ended the year with the strongest balance sheet in our history, including a net cash position of £410.6 million, having fully paid £118.3 million of tax deferrals from FY20 during the year.

Closing net cash/(net debt)⁽⁷⁾ £m



Retirement benefits

The Group's pension position under IAS 19 at 30 June 2021 has resulted in a surplus of £46.6 million, compared to a surplus of £55.2 million at 30 June 2020. The decrease in surplus of £8.6 million was primarily due to a reduction in scheme asset values, partially offset by changes to financial assumptions, notably an increase in the discount rate, together with Company contributions. 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 £16.3 million of cash to the defined benefit scheme (2020: £15.7 million), in line with the agreed actuarial 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.

Exceptional charge

There were no exceptional charges in FY21.

In FY20, the Group incurred an exceptional charge of £39.9 million in relation to the following items, specifically:

In January 2020, the Group undertook a restructure of its business operations in Germany to provide a greater focus and alignment to the mid-sized enterprises known as the Mittelstand, together with a dedicated large Corporate Accounts division, at a cost of £12.6 million. Following the subsequent global Covid-19 pandemic, and the immediate reduction in demand for recruitment services, the business operations of several other countries across the Group were restructured, primarily to reduce operating costs. The restructuring exercise led to the redundancy of a number of employees, primarily senior management positions, and incurred costs of £7.0 million. The Group incurred an £8.0 million cash outflow in FY21 in respect of the FY20 exceptional charge.

Additionally, goodwill impairment reviews were performed on 30 June 2020 by comparing the carrying value of goodwill with the recoverable amounts of the Group's 'Cash Generating Units' (CGUs), to which goodwill has been allocated. Before impairment testing, the carrying value in respect of the US business, which is part of the Rest of World segment, was £43.4 million. The US business was performing in line with expectations up until the Covid-19 pandemic but as disclosed in previous years, the business had limited headroom on the carrying value of goodwill. The Group's priority was to continue to make investments in the US business in order to accelerate growth in line with the Group's long-term strategy to build a strong presence in the US in order to maximise the long-term growth opportunities available in the market. Because of this ongoing investment, against a difficult market backdrop, management revised the cash flow forecast for the US CGU and as a result reduced its carrying value through the recognition of an exceptional impairment loss against goodwill in FY20 of £20.3 million. The recoverable amount was considered to be in line with its value-in-use and was considered higher than its fair value less cost of disposal.

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. Given the strong recovery in Group profitability, our strong balance sheet and confidence in our outlook, and as previously announced, the Board proposes to resume core dividends with one single payment for FY21 of 1.22 pence per share, representing 3.0x dividend cover. Our target dividend cover range remains 2.0 to 3.0x earnings.

The Board expects to resume ongoing special dividends in FY22. Our policy for such special dividends will be based on paying cash above our buffer at each financial year-end of £100 million. As mentioned on page 11, we have budgeted a further £110 million buffer for working capital rebuild which will reduce as our Temp book grows and working capital increases, including any normalisation in client payment times. This equates to the cumulative Group working capital inflow since the start of the pandemic, at 30 June 2021. Any ongoing special dividends will also be dependent on a return to more normal levels of profitability, and a positive economic outlook.

Our business model remains highly cash generative, and in recent years we have a track record of paying cash to shareholders, with c.£374 million in core and special dividends paid in respect of FY17 to FY19.

Treasury management

The Group's operations are financed by retained earnings and cash reserves. In addition, the Group has in place a £210 million revolving credit facility, which reduces in November 2024 to £170 million and expires in November 2025. 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 2021: 283:1) and its leverage ratio (net debt to EBITDA) to be no greater than 2.5:1 (as at 30 June 2021 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 0.70% 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
25 August 2021