THE **YEAR** IN REVIEW, AND THE YEARS **AHEAD**

Alistair Cox
Chief Executive Hays

Alistair Cox discusses the Group's performance in FY23 and looks ahead to our areas of focus and development in the future.

Q1

How did Hays perform in FY23?

A

We delivered record Group fees, up 6% to £1,294.6 million, including 21 individual country records. That's despite a macroeconomic backdrop that became progressively more difficult as the year passed. Our largest business of Temp & Contracting was the main driver of our growth, increasing by 9% and remaining stable at good levels through our second half. Our Perm business was more impacted by the tightening market and while Perm fees increased by 3% overall, they slowed sharply through the year, up 12% in H1 and down 6% in H2.

Reflecting the increasingly challenging market conditions, our quarterly fee growth decelerated from 15% in Q1 to (2)% in Q4. We acted quickly to manage our costs as the markets changed, while being mindful to protect our key strategic investments. We entered FY23 with consultant headcount 26% higher than the prior year and reduced headcount by 5% over the year. However, with the cost increase of our higher average headcount through the year against a toughening backdrop, profits declined by 9% YoY to £197.0 million. Our early cost reduction ensured that Group operating profit and conversion rate improved slightly in H2 versus H1, in line with the guidance we gave at our half-year results.

Our average number of placements per consultant materially declined, particularly in Perm as hiring processes became longer, driven by reduced client and candidate confidence. However, fee margins remained strong, and this combined with our reduction in consultant headcount ensured that overall average fee productivity per consultant remained very close to FY22's record levels. Productivity remains a key management focus in FY24.

Fee growth was broad-based globally, reflected by 21 countries delivering all-time net fee records. Germany, our largest country, was a standout performer, with record fees up 19% and operating profit up 29% to £100.2 million. Performance in our wider EMEA region, part of our RoW division, was also strong, with fees up 12% and operating profit up 18%.

Conditions were less favourable elsewhere. Fees in ANZ declined by 6%, with operating profit down 39%, driven largely by slower Temp markets, especially in Public sector and Banking. The UK&I was also challenging, with fees up 1% and profit down 34%. In both regions we aligned our capacity to market demand, reducing headcount in ANZ and UK&I by 6% and 11% respectively during the year.

RoW fees increased by 5%, although profit declined by 14%, largely due to the effects of the post-pandemic slowdown in Mainland China, where fees decreased by 46%, and difficult conditions in the USA, where fees declined 13%.

Our cash performance was strong and we ended the year with net cash of £135.6 million (FY22: £296.2 million). This was after paying £165.1 million in core and special dividends through the year and purchasing and cancelling £75.0 million worth of Hays shares as part of our share buyback programme. This took our total share buybacks since we launched our programme in April 2022 to £93.2 million, which reduced our weighted average number of shares by 3.7%.

Given our financial strength and confidence in the future, the Board proposes to pay a 5% increased full-year core dividend of 3.00 pence per share in respect of FY23, plus a 2.24 pence per share special dividend, subject to shareholder approval.

We never lose sight though that our financial results are the outcome of everything we do to deliver on our purpose: empowering people and businesses to succeed. The fact I'm most proud of is that during FY23 we helped over 300,000 people with their next career move, and literally millions of others develop their careers through our advice, expertise and training. At a time when the world faces acute skill shortages in key sectors, our services have never been as relevant in helping to create, retain, develop and deploy diverse talent. I see for myself every day the real difference we are making to businesses and to people's lives globally.

Our own business also starts and ends with our people. They are what set us apart from the competition and they are the heart of our culture. We aim to recruit diverse talent from across society, create an inclusive and equitable working environment, provide the best training and development in our industry, and offer the most rewarding and fulfilling career opportunities. We measure our success through our overall employee engagement score, and this remained strong at 76%, despite the tougher economic conditions. I'm delighted that 4,506 colleagues were promoted throughout the year as they developed their own careers, and 112 people moved internationally within the Hays global network.

There is no doubt that the world is facing a number of difficult challenges. With inflation still at high levels and interest rates continuing to climb, business confidence is understandably uncertain. The world also faces longer term challenges, whether they be around decarbonisation or geopolitical changes. What is clear though is that our clients need help to develop and access the talented resources they need to manage through these challenges and thrive. We have entered FY24 with our headcount aligned with our fee growth and are focused on driving consultant productivity and managing our costs accordingly. This best positions us to do our job effectively, ensuring organisations have access to the very best talent, and talented people have access to the very best opportunities for themselves. That is why we exist.

"Against a toughening macroeconomic backdrop, we delivered a resilient overall performance."

Q2

What were the strategic highlights of the year?

A

We live in a fascinating world, undergoing great change. People and skills sit right at the heart of the global economy, but organisations face a series of complex organisational challenges, chronic skill shortages, technology-driven revolution, increasing demands from employees and demographic and societal changes. The sheer scale of these challenges means that many in-house HR teams struggle to cope, and we see increasing numbers coming to us for help on a broader set of issues. Our strategy is based on responding to megatrends in order to grow the business and our market share, deepen our client and candidate relationships and position Hays further up the value chain as their long-term Leadership Partner. This is a very privileged – and powerful – place to be and we have made excellent progress developing our propositions in the most attractive sectors, broadening our services portfolio and extending our client relationships.

Highlights include our record global fee performance in Technology, up 6% to £333 million (more information on page 34), and where we are now established as one of the world's largest recruiters of technology talent. This puts us on-track against our five year aspiration to create a £500 million fee business in Technology by FY27. Similarly, our Engineering business grew 21% and is now our third biggest specialism, providing us an excellent foundation to service a world that needs more engineers, particularly as we target the Green Economy.

We grew direct and indirect fees in our Enterprise clients by 10% as we partnered with more large organisations and grew our share of their recruitment spend (more information on page 8). Again, this puts us on-track to deliver against our FY27 aspirations to build a £400 million business in outsourced solutions. We are also increasingly working with many organisations on a broader set of talent challenges alongside recruitment. To accelerate this trend, we hired a Global Head of Advisory Services and made good progress in designing and rolling out training, upskilling and re-skilling propositions to our clients as components of our overall Talent Services. As part of this strategy, we acquired a majority stake in Vercida Consulting, a leader in UK DE&I consulting, and we intend to expand that business across our international network.

We also have made excellent progress growing in the most attractive geographies globally. Germany represents our largest single geographic opportunity, and we grew fees to a record £382.0 million, up 19% despite German GDP declining slightly between September and June. This highlights the structural demand for skilled contractors and temps, driven by acute skill shortages in Europe's largest economy. Our largest German sectors, Technology and Engineering, increased by 10% and 22% respectively, delivering on the earlier investments we made in them. Our more recent sectors including A&F, C&P, the Public sector and Legal all did well, and we invested in new sub-sectors including Cyber Security, AI and the Green Economy.

Growing our Contractor & Temp business globally is also a priority and over the last two years we have added over 3,000 workers in Germany alone. That is equivalent to creating a top five business in the German white-collar, non-Perm recruitment market from scratch and illustrates the brand and momentum we have built in what I regard as one of the most exciting recruitment markets in the world. As the far-and-away market leader in Germany, we are ahead of our plan to at least double the profitability of our German business by FY27 and I am very optimistic about the scale of our opportunity and our ability to capitalise on it, just as these results show.

We also made breakthroughs in growing non-Perm fees to a critical scale in several other European countries including France, Spain and the UAE.

"Our fees in Technology exceeded £330 million for the first time ever, having more than doubled in the past eight years."

Q3

Were there any lowlights in the year?

A

While I'm pleased that we hit a record fee performance in FY23, I also recognise that our operating profit and conversion rate were negatively impacted by the sharp slowdown in market activity levels. If we recall, our H2 22 Group fees were up 27% and we had invested significantly in consultant headcount, up 26%, to meet high levels of demand and a strong market at the start of the year. The market however started to slow sharply from Q1 23, particularly in Perm, and average placement volumes per consultant decreased. Our average headcount growth in H1 23 was 17%, versus 12% fee growth, and hence we incurred negative profit leverage.

As ever though, we reacted quickly to the changing conditions and reduced capacity and costs. We realised savings in travel, property and via our back-office efficiency projects. Our H2 average consultant headcount growth was only 1% YoY, and on 30 June 2023 our consultant headcount was down 5% YoY, meaning we ended the year with our capacity aligned to our fee growth and current market conditions. This focus also allowed us to maintain our overall fee productivity per consultant at good levels, down 3% on FY22's record levels, and increasing slightly in Q4.

Finally, the one area where we are behind plan on our FY27 aspirations is ANZ where performance was below our expectations, particularly impacted by weaker Banking and Public sector markets. We have taken steps to improve performance, including reducing headcount and restructuring the management team. I expect these actions to deliver results in FY24, remembering that we have the leading business in Australia and its economy and labour market have strong fundamentals. Our long-term ambitions for that business are therefore undiminished.

Q4

How would you summarise Hays' sustainability and societal progress in the year?

A

Our core value is to 'Do the right thing', and by doing so we have delivered another year of strong sustainability and societal progress.

Core to our business is the over 300,000 people whose lives were positively impacted by us placing them in a new role. We also helped many millions of others with career advice and training or upskilling. This takes time and financial investment, but I believe there is real social value in this. Our 'Helping for your tomorrow' community engagement initiative grew significantly in its second year, with volunteering hours up over 85% to 17,673 globally. This has continued into our new year and Hays UK has recently teamed up with Neighbourly and recorded over 9,000 hours of volunteering in July 2023 alone. Every Hays employee is given one volunteering day, which they can use to work with a charity directly related to our purpose as a business and to helping people advance their careers. You can read more about this on page 58.

Acting responsibly and sustainably sits at the heart of our strategy. In FY23 we conducted our most comprehensive GHG emissions gathering exercise yet, quantifying previously unmeasured emissions. Consistent with our SBTs in support of the Paris Agreement, we have updated our base year to reflect this data, giving us a much better understanding of our impact on the environment. As expected, our underlying GHG emissions under our control increased in the year as our average headcount increased, economies reopened post-pandemic and business travel increased. However, we aspire to lead our industry in environmental performance and our emissions are down 29% versus our 2020 base, and by 34% on a per employee basis. We are on track to meet our SBT of halving emissions under our control by 50% by 2026. We also remain committed to halving scope 3 emissions by 2030, and we actively prioritise working with suppliers who share our vision on Net Zero emissions.

We also made excellent progress in our strategy around Diversity, Equity & Inclusion. The percentage of females in our senior leadership group, comprising our top 680 leaders or around 5% of our workforce, increased by 1.9% to 44.3%, and we are on track to reach our target of 50% by 2030. We appointed our first global head of DE&I, and you can read more about our progress on pages 22 to 25. We now have Employee Resource Groups (ERGs) in all our regions and have employee action groups globally covering initiatives including Pride/LGBTQIA+, Working Parents, Women at Hays and Fitness & Wellbeing.

Looking after our people is key to us and we made further progress in our Wellbeing and Mental Health programmes. Prioritising the mental health of our colleagues is something the Board takes very seriously and is committed to. During the year we launched a scheme to train our managers in mental health awareness and established a network of mental health first aiders across Hays. We also launched an award-winning partnership with Finwell to help colleagues navigate the cost-of-living crisis.

The Board is also considering establishing a Group ESG Committee in FY24.

Q5

How is Hays performing against the ambitions set out at the 2022 Investor Day?

A

The purpose of our Investor Day, held in April 2022, was to highlight how the changes in the world of work benefit Hays, what we are doing to capitalise on these changes and how we will deliver significant value for all our stakeholders, including substantial returns to our shareholders.

Our Investor Day was also designed to set out the 'art of the possible' within our business. With so much economic uncertainty in our world and in an industry that is sensitive to economic confidence, it would be unrealistic to claim to be able to accurately predict a five-year financial plan. However, we believe it is possible to illustrate what a feasible outcome may look like and where it will be derived from, assuming a supportive economy and no significant downturns in any of our major markets, and no material changes in key exchange rates. On this basis, our ambition was to broadly double operating profits from FY22 levels within five years.

We used five key pillars to set out our ambitions, shown in the graphic opposite. These were increasing our Technology fees to £500 million, doubling our operating profit in Germany to €200 million, delivering £350 million in UK&I fees, growing ANZ to AUD $500 million in fees and doubling fees in Outsourced Solutions to £400 million.

Obviously, the macroeconomic environment will play a major role in our delivery against these aspirations, and that is outside our control. FY23, the first year of our strategy timeframe, saw most of our markets face worsening backdrops, including recessions. Our view was that should any material economic downturns occur, we may well see the achievement of our aspirations pushed out by 1-2 years. Importantly though, the long-term potential in the business remains undiminished and this remains the case today.

In Technology, our fees increased by 6% to a new record of £333 million. This growth level was slightly below the average fee growth delivered since FY10 of 10% per annum. However, it came on the back of 32% Technology fee growth in FY22. The Perm market was markedly harder last year though and resulted in a slowdown in Technology fees to (2)% in Q4 FY23. Fees in our core Contracting and Temp business, representing 85% of fees, were stronger and increased by 11% in FY23, including growth of 3% in Q4. Given the strong start to the five-year ambition that we have made, we believe we are currently on track to deliver £500 million in Technology fees. This would reinforce our position as one of the global leaders in Technology recruitment (more information on page 34).

Our market-leading business in Germany also delivered record fees, up 19% to £382 million, driven by volume growth and positive pricing/mix effects. This drove operating profit up 29% to £100.2 million, or €130 million excluding Group costs, representing another year of strong progress toward our five-year ambition to double operating profit (ex-Group costs) to €200 million. Fee growth was strong across each of Contracting, Temp and Perm, up 23%, 8% and 22% respectively, and with record fees in both Contracting and Perm. Sector-wise, we delivered fee growth across all our specialisms, with standout performances from Engineering (up 22%), Accountancy & Finance (up 26%) and HR (up 82)%. Our largest specialism of Technology increased by 10%.

As noted earlier, we added over 3,000 German Contractors and Temps in the last two years. This is the benefit of many years of building infrastructure, expertise, brand and reputation in Germany, and that's very hard to replicate. We also have a world-class team who are true experts in the industry. That's why I am comfortable to say we are well on-track today with our aspiration to double our profits in Germany.

The third pillar of our five-year ambition was to increase UK&I fees to £350 million. Fees were up 1% in the year to £266 million. However, with an economy facing rising interest rates, increasing inflation and higher energy prices, it is understandable that client and candidate confidence fell, and this led to a sharp slowdown through the year. Illustrating this, we began the year with 11% fee growth in Q1, but ended with fees down (7)% in Q4.

I have great confidence in the strength of our business in the UK though, and I still believe the ambition of increasing fees to £350 million is entirely valid in a market as large as that of the UK and where we remain a leader. Undoubtedly, the economic environment has worsened since we set out our plan, and as we said in April 2022, a downturn would likely delay the achievement of our ambition.

The fourth strategic theme was to increase ANZ fees to AUD $500 million. We are market leaders in Australia, however, FY23 was undoubtedly a difficult year for us, with growth slowing from 12% in Q4 22 to (15)% in Q4 23. The Public sector in particular was challenging, with Temp volumes under pressure as the newly elected Federal government shifted away from using contingent staffing, and State governments looked to reduce budget spending.

However, like the UK&I, I am confident that AUD $500 million still reflects a realistic 'art of the possible', albeit one which will be delayed. Once end markets stabilise and we see the benefits of the actions already taken, I fully expect us to return to growth in ANZ.

Finally, our fifth theme was to double Outsourced Solutions fees to £400 million, having broadly doubled fees in this area in the previous six years (more information on page 8). Last year was another strong year, with direct and indirect fees at Enterprise clients increasing by 10% to £234 million. We continued to win new clients, as well as increase share of overall recruitment with existing clients. As we set out at the Investor Day, a prime area for increased outsourcing is our existing large pool of clients where we already have good relationships as preferred suppliers (PSLs). As set out on page 33, we have c.150 direct outsourced contracts and well over 500 PSLs, so our prospects and pipeline to build bigger relationships, including full outsourcing, is strong. Overall, we are broadly on track to double fees to £400 million by FY27, despite the macroeconomic slowdown.

£333m

Record fees in Technology, up 6%

£234m

Record fees in outsourcing with Enterprise clients, up 10%

Q6

What are your other key priorities?

A

Despite already having market-leading positions in many areas and being a global leader in our industry, realising the many long-term structural growth opportunities that we face is our top priority. Step one in that journey is delivering on the aspirations we set out at our 2022 Investor Day. That will be achieved by building scale on the foundations we have in key geographies and sectors. It will be reinforced by expanding our service offerings in adjacent talent areas, such as DE&I consulting and Project Services. The new service lines we are considering are related to talent, but clearly not all are purely recruitment-focused. This means standing by our marketing message 'Working for your tomorrow' (more information on page 28) as we deliver services to solve today's talent challenges.

All of this can only be achieved through the expertise and commitment of our own people globally. A huge amount of my own time is focused on identifying, developing and deploying our leaders to take on bigger businesses and new challenges.

We are very proud of our culture, and we think it sets us apart in our industry. In every one of our 252 offices worldwide, client service, integrity, passion, expertise, cherishing a diverse and inclusive environment and doing the right thing hold true. We continued to invest in culture, launching our 'International Leaders of the Future' programme in FY23, augmenting our existing 'International Leadership and Management' programme. Total classroom and on-the-job training time was maintained at c.20% of each Associate's first year, with managers averaging 12 days of training per year.

I can think of no business where technology is not playing a leading part. For many years we have focused on the benefits of technology and have in place a scalable technology stack. I see numerous opportunities where technology can help us, whether that be in making our services or support more efficient, by enhancing customer service or by opening new revenue streams. Embedding technology solutions alongside our people experts is a core philosophy of Hays, and one that stands us in good stead given advances such as the maturing of generative AI (more information on page 30). Clearly, with a digitally enabled business comes greater IT security risk. This threat is taken extremely seriously, and we strive to do everything we can to protect our candidate, client and employee data, and our system's integrity. The high level of engagement and integration across our IT, Legal and Operations teams gives me significant confidence in this area, but we can never be complacent.

A CEO's job is to align Group strategy and investments with the reality of global economic and geopolitical conditions. We are now living in a world of significant and increasing macroeconomic uncertainties, all of which are outside our control. Accurately predicting the impacts of the many forces at work is impossible. However, we have built a business that is highly adaptable to changing circumstances and we run the business based on real-time data, giving us a competitive advantage in terms of insight and informed decision-making in a fast-moving world. We are constantly alert to a wide range of indicators and our management teams worldwide are expert at responding nimbly as we balance short-term priorities with our longer-term ambitions. Our active management of consultant headcount and productivity in FY23 is clear evidence of this.

Undoubtedly, the world has new challenges to face today, but I am confident our leaders will adjust accordingly as those challenges unfold. In a world characterised by acute skill shortages, our focus is on navigating through this uncertain backdrop while continuing towards our own North Star of reinforcing our position as a world leader in recruitment and wider talent services.

And finally, this is my last Annual Report as CEO, and I would like to say it has been a tremendous privilege to have led this great company for the last 16 years. During that time, we have helped over four million people around the world secure their next career move. That is something I am very proud of as it has touched so many lives for the better.

We have come a long way in the last decade and a half. When I joined Hays in 2007, over 80% of our fees came from the UK & Ireland. Since then, we have taken that local success story and turned it into a global one where over 80% of our fees are now international, and we operate at record scale. We have created a powerful brand and digitally enabled our business, building a global leader in white-collar recruitment. We have also developed thousands of our own people who are building their own exciting careers around the world. My heartfelt thanks go to all my colleagues around the world for their hard work and expertise, as well as their support, loyalty and friendship. It really has been a team effort. We have the foundations in place to write many exciting future chapters of 'Our Hays Stories', and I wish Dirk Hahn, whom I have worked closely with throughout my entire tenure, every success as the next CEO of Hays.

IN APRIL 2022 WE SET OUT OUR GROWTH AMBITIONS FOR THE NEXT FIVE YEARS

Technology
£500m net fees

Germany
Double profits to €200m*

UK&I
£350m net fees

ANZ
AUD $500m net fees

Outsourced Solutions
Double net fees to £400m

WE SEE **SIGNIFICANT STRUCTURAL OPPORTUNITIES** FOR LONG-TERM GROWTH

For the avoidance of doubt, our total Group FY27 net fee aspiration is not an aggregation of these ambitions as there is significant overlap between our net fees by country and fees in our large Technology and Outsourced Solutions business.

* Pre central cost allocation.

FINANCE DIRECTOR'S REVIEW

James Hilton
Group Finance Director
Hays plc

Growth in Group net fee income
6%
FY22: 32%

Consultant headcount
8,590
FY22: 9,037

Growth in Group operating profit
(9)%
FY22: 128%

Year-end net cash
£135.6m
FY22: £296.2m

Conversion rate[3]
15.2%
FY22: 17.7%

Cash conversion[8]
101%
FY22: 87%

James Hilton was appointed as Group Finance Director in October 2022, succeeding Paul Venables who retired at that time. James has held numerous roles during his 15 years with Hays, including European Finance Director and most recently Group Financial Controller. Prior to joining Hays, James qualified as a Chartered Accountant at KPMG and worked in Investment Banking with Dresdner Kleinwort.

"I am deeply honoured to become Group Finance Director and to have succeeded Paul Venables, who worked tirelessly on behalf of shareholders over 16 years. I would like to thank Paul for his immense contribution to Hays and I am excited about the opportunity to help drive our continued success. By executing our strategy, together with the exceptional talent within our organisation, I am confident we will achieve our shared goals as a business.

I am a firm believer that maintaining a strong balance sheet and consistently applying prudent accounting principles are the bedrock upon which solid financial foundations are laid, and are what enable organisations to thrive and prosper.

Looking ahead, we remain focused on delivering sustainable value for our shareholders. We will do this in a responsible way, taking into account the interests of key stakeholders such as our employees, clients, candidates, plus communities and the natural environment.

We will continue to focus on long-term strategic growth markets, leverage emerging technologies, embrace innovation and pursue strategic partnerships to drive long-term growth and enhance shareholder returns."

Operating performance

Year ended 30 June (£m)	2023	2022	Actual growth	LFL growth
Turnover(1)	**7,583.3**	6,588.9	15%	12%
Net fees(2)	**1,294.6**	1,189.4	9%	6%
Operating profit	**197.0**	210.1	(6)%	(9)%
Cash generated by operations(4)	**199.3**	182.9	9%	
Profit before tax	**192.1**	204.3	(6)%	
Basic earnings per share	**8.59p**	9.22p	(7)%	
Core dividend per share	**3.00p**	2.85p	5%	
Special dividend per share	**2.24p**	7.34p		

Note: unless otherwise stated all growth rates discussed in the Finance Director's Review are LFL YoY net fees and profits, representing organic growth of operations at constant currency.

Financial overview

Trading in the year to 30 June 2023 represented a fee record for the Group and included 21 individual country records. Net fees increased by 6% on a LFL basis, and by 9% on a reported basis, to £1,294.6 million. This represented LFL fee growth of £72.5 million versus the prior year. However, fee growth slowed sharply through the year, with H1 up 12% and H2 up 1%, as the economic backdrop deteriorated across our markets. Fee growth in our fourth quarter was (2)%, as was our June net fee exit rate.

Turnover increased by 12% (15% on a reported basis). The higher turnover growth compared to net fee growth was due to stronger growth in Temp fees versus Perm, together with the first full year of a large Temp outsourcing contract in our RoW division, where we manage a supply chain which includes a significant volume of third-party agency supply. Over time, we expect to increase our direct fill proportion, driving fee growth.

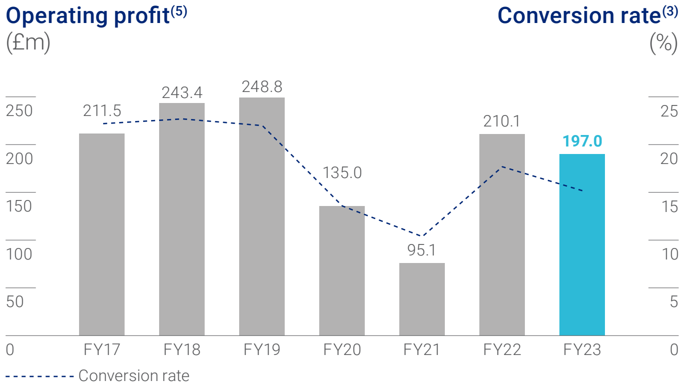
Temp fees (57% of Group) grew 9%, including H2 up 6%. Our underlying Temp margin(6) benefited from a 40 bps increase, plus we saw 8% growth from positive mix effects and wage inflation. We expect to see some continued pricing benefit in our fees in H1 24.

Perm fees (43% of Group) grew 3%, however activity slowed sharply through the year, with fees up 12% in H1 and down 6% in H2. Overall, volumes decreased by 8%, including H2 down 15%, as job inflow decreased and hiring processes extended. This was partially offset by strong growth in our average Perm fee, up 11%.

Our growth in underlying Temp margin(6) and average Perm fee are the direct results of management actions to increase fee margins in skill-short markets and focus on higher value roles in in-demand markets, reinforced by the positive effects of wage inflation globally.

Operating profit decreased by 9% to £197.0 million, with costs up 9% YoY driven by increased average headcount of 9%, following significant headcount investment in FY22. This drove a 250 bps decrease in the Group's conversation rate(3) to 15.2% (FY22: 17.7%).

Our cash performance was strong and we ended the year with net cash of £135.6 million. We converted an excellent 101%(8) of operating profit into operating cash flow(4), helped by another strong performance from our credit control teams, with debtor days remaining at last year's record low level of 33 days. Our business model remains highly cash-generative and together with the Group's profitability and financial strength, supports our proposed 5% FY23 core dividend increase to 3.00 pence per share. The Board also proposed a further £35.6 million special dividend, equating to 2.24 pence per share.



(1) Net fees of £1,294.6 million (FY22: £1189.4 million) are reconciled to statutory turnover of £7,583.3 million (FY22: £6,588.9 million) in note 5 to the Consolidated Financial Statements.
(2) Net fees comprise turnover less remuneration of temporary workers and other recruitment agencies.
(3) Conversion rate is the proportion of net fees converted into pre-exceptional operating profit.
(4) Cash generated by operations is stated after IFRS 16 lease payments, which we view as an operating cost.
(5) FY20 and FY19 operating profit and basic earnings per share are stated before exceptional charges. There were no exceptional charges in FY18, FY21, FY22 and FY23.
(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(4).

Operating profit and conversion rate

FY23 Group operating profit of £197.0 million represented a LFL decrease of 9%. In line with the guidance given at our H1 FY23 results, in H2 both operating profit (£100.0 million) and conversion rate (15.6%) increased versus H1 as we controlled costs and drove consultant productivity. Overall in FY23, Group conversion rate decreased by 250 bps YoY to 15.2%.

LFL costs increased by 9% YoY or £91.2 million (£118.2 million on a reported basis). This comprised a 9% increase in average consultant headcount, with H1 up 17% and H2 up 1% YoY, and our own cost inflation, including base salary increases and our long-term strategic investments. Consultant commissions decreased slightly YoY primarily reflecting the slowdown in Perm markets.

Prior to the start of our financial year, we had invested significantly in consultant headcount to meet current and expected levels of demand and to further strengthen our position in long-term strategic growth markets such as Technology and Enterprise clients. As a result, we entered FY23 with consultant headcount up 26% YoY. However, market conditions became more challenging through the year, particularly in Perm, resulting in a decrease in average placement volumes per consultant and a consequential negative profit leverage. Accordingly, we moved quickly to align capacity to underlying market demand and reduce costs, reducing consultant headcount in several markets, while protecting our investments in key structural areas.

Overall, Group consultant headcount in FY23 decreased by 447, or 5% versus June 2022. Although more challenging market conditions meant that Group average volume productivity per consultant was down significantly versus the prior year, and pre-pandemic peak levels, average fee productivity per consultant remained at good overall levels, driven by our actions to increase fee margins and focus on higher value roles. We remain focused on driving productivity in FY24.

We closely managed our overhead costs, including travel, advertising, entertainment and property, together with savings realised from our back-office efficiency projects.

Net finance charge

The net finance charge for the year was £4.9 million (2022: £5.8 million). Net bank interest payable (including amortisation of arrangement fees) was £1.7 million (2022: £0.5 million). The interest charge on lease liabilities under IFRS 16 was £4.2 million (2022: £3.9 million), and the credit on defined benefit pension scheme obligations was £1.1 million (2022: charge of £1.4 million). The Pension Protection Fund levy was £0.1 million (2022: £0.1 million). We expect the net finance charge for FY24 to be c.£6 million, of which c.£4 million is non-cash.

Taxation

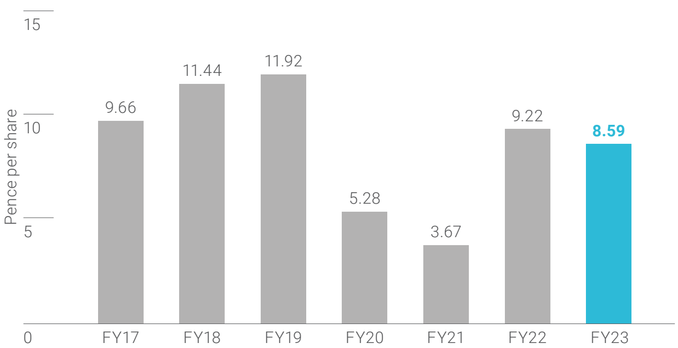
Taxation for the year was £53.8 million (2022: £50.1 million), representing an effective tax rate (ETR) of 28.0% (2022: 24.5%). The increase in the ETR YoY is primarily driven by the non-recurrence of positive one-off settlements with certain tax authorities in FY22, plus the recognition of deferred tax assets driven by the positive movement in the Group's defined benefit surplus in the prior year. We expect the Group's ETR will be c.29% in FY24, with the increase resulting from the rise in UK corporation tax rate which was effective from April 2023.

Earnings per share

The Group's basic earnings per share (EPS) of 8.59p was 7% lower than the prior year. The reduction was primarily driven by 6% lower profit before tax, and as we incurred a higher ETR of 28% in FY23, given the prior year ETR of 24.5% had benefited from positive one-off settlements with certain tax authorities. The impact on EPS was partially offset by a 3.7% reduction in average shares in issue, resulting from our share buyback programme.

Earnings per share[5]

(p)



Cash flow and balance sheet

Conversion of operating profit into operating cash flow[4] was an excellent 101% (2022: 87%[8]). Working capital increased by £28.7 million as our Temp debtors increased in line with our Temp fee growth. We continued to see a strong performance by our credit control teams globally, with debtor days of 33 days (2022: 33 days), versus 39 days pre-pandemic.

Net capital expenditure was £29.1 million (2022: £24.4 million), with continued investments in technology infrastructure and cyber security, with an additional £1.0 million investment acquiring the majority stake in Vercida Consulting, a UK-based DE&I advisory business. We expect capital expenditure will be c.£30 million in FY24.

We paid £165.1 million in core and special dividends in the year (2022: £186.4 million) and company pension contributions were £17.7 million (2022: £17.2 million). Net interest paid was £1.7 million (2022: £0.5 million) and corporation tax payments were £65.8 million (2022: £39.0 million).

During the year we purchased and cancelled 66.2 million shares at an average price of 113.3 pence per share and cost of £75 million, which completed our £93.2 million initial share buyback programme. We ended the year with a net cash position of £135.6 million (2022: £296.2 million).

Free cash flow priorities

Our business model remains highly cash generative. The Board's free cash flow priorities are to fund the Group's investment and development, maintain a strong balance sheet, deliver a sustainable, progressive and appropriate core dividend and to return surplus cash to shareholders through an appropriate combination of special dividends and share buybacks.

Our first priority is investment in our business. This will mainly be via organic means – however we also reserve the right to make selective bolt-on acquisitions to broaden our service offerings should we identify appropriate opportunities. As an example, during FY23 we purchased Vercida Consulting, a UK DE&I consultancy. Vercida provides organisations with advisory services to improve their ability to attract, retain and progress talent from diverse backgrounds. Our initial investment was c.£1 million, with further amounts payable based on achieving our ambitious growth plans.

Given the Group's profitability, strong balance sheet and confidence in our long-term strategy, the Board has proposed a final core dividend of 2.05 pence. When added to the interim dividend of 0.95 pence paid in April 2023, the Group's total FY23 core dividend is 3.00 pence per share (2022: 2.85 pence), representing dividend cover of 2.9x when compared to our EPS of 8.59 pence per share, and a 5% increase versus FY22.

OUR PRIORITIES FOR USES OF FREE CASH FLOW

Fund Group investment and development

- Invest in headcount, training, systems and brand to support organic growth
- Assess potential M&A opportunities where appropriate

Maintain a strong balance sheet

- Maintain a net cash position of £100 million
- Funding of defined benefit pension scheme and long-term consideration of buy-out

Core dividend policy

- Deliver a core dividend which is sustainable, progressive and appropriate
- Target core dividend cover of 2 to 3x EPS

Excess cash returns policy

- Subject to supportive economic outlook, return cash >£100 million to shareholders via special dividends and disciplined share buybacks as appropriate

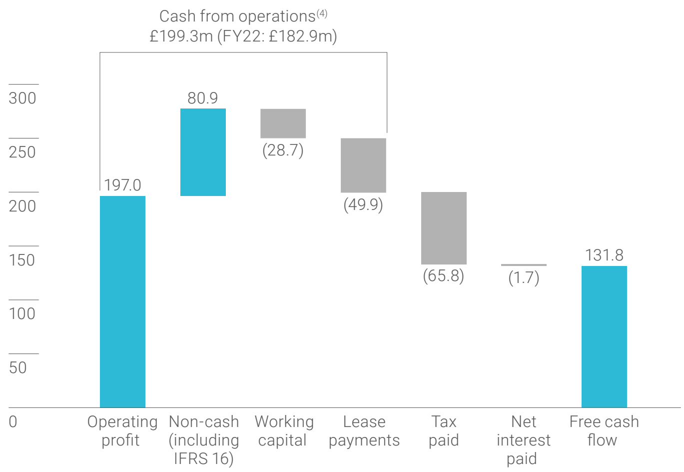
The ex-dividend date is 5 October 2023, and the dividend payment date will be 17 November 2023. Our core target dividend cover remains 2 to 3 times EPS.

The Board will continue to retain a cash buffer of £100 million at our financial year-end. Above this level, and subject to the economic outlook, the Board intends to return capital to shareholders via a combination of special dividends and disciplined share buybacks.

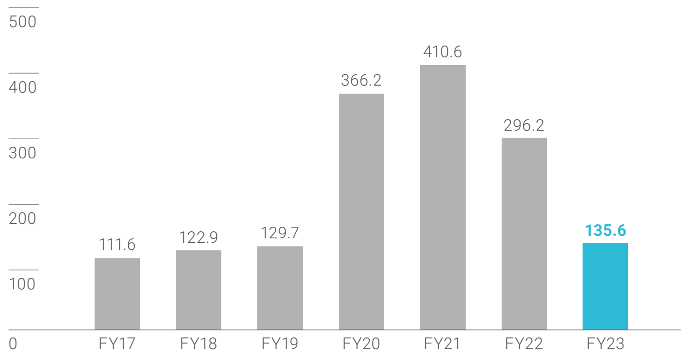
The Board is pleased to propose a further £35.6 million return of surplus cash to shareholders, via a special dividend of 2.24 pence per share, which will be paid alongside the final dividend. We have established a track record of paying cash to shareholders, with c.£950 million in core and special dividends paid in respect of FY17 to FY23, plus £93.2 million in share buybacks since April 2022.

The Board expects the combined value of core and special dividends to represent the majority of capital returns in normal years. However, we reserve the right to undertake share buybacks, according to market conditions.

Operating profit to free cash flow
(£m)



Closing net cash/(net debt)[7]
(£m)



Retirement benefits

The Group's defined benefit pension scheme position under IAS 19 at 30 June 2023 has resulted in a surplus of £25.7 million, compared to a surplus of £102.0 million at 30 June 2022. The decrease in surplus of £76.3 million was driven by a decrease in expected returns from scheme assets, partially offset by the favourable impact of changes in financial assumptions, most notably an increase in the discount rate as interest rates increased, and company contributions. In respect of IFRIC 14, the Schemes' Definitive Deeds and Rules are 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 Group contributed £17.2 million of cash to the defined benefit scheme (2022: £16.7 million), in line with the agreed deficit recovery plan. The 2021 triennial valuation quantified the actuarial deficit at £23.9 million on a Technical Provisions basis. Our long-term objective continues to be reaching full buy-out of the scheme and therefore our recovery plan remained unchanged and comprised an annual payment of £16.7 million from July 2021, with a fixed 3% uplift per year. The scheme was closed to new entrants in 2001 and to future accrual in June 2012.

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 2023: 174:1) and its leverage ratio (net debt to EBITDA) to be no greater than 2.5:1 (as at 30 June 2023 the Group held a net cash position). The interest rate of the facility is on a ratchet mechanism with a margin payable over Compounded Reference Rate in the range of 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 operate as a profit centre or use derivative financial instruments for speculative purposes.

James Hilton
Group Finance Director

23 August 2023