

QUARTERLY UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2020

16 July 2020

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Financial summary

Growth in net fees for the quarter ended 30 June 2020 (Q4 FY20)

(versus the same period last year)

	Growth	
	Actual	LFL
By region:		
Australia & New Zealand	(31)%	(28)%
Germany	(32)%	(33)%
United Kingdom & Ireland	(42)%	(42)%
Rest of World	(30)%	(31)%
Total	(34)%	(34)%
By segment:		
Temporary	(26)%	(26)%
Permanent	(44)%	(44)%
Total	(34)%	(34)%

Note: unless otherwise stated, all growth rates discussed in this statement are LFL (like-for-like) fees, representing year-on-year organic growth of continuing operations at constant currency. Please see the appendix for our Q3 FY20 LFL fees.

Overview

- Group fees down 34%, with markets greatly impacted by the Covid pandemic. Overall, May / June fees were sequentially stable. While current activity levels have improved, no signs yet of positive fee momentum
- Full-year operating profit before exceptional items expected to be between c.£130-135 million. Cost base reduced by 21% versus pre-Covid levels, partially helped by certain temporary cost savings
- **Australia & New Zealand (ANZ):** fees down 28%. Relative resilience in Temp, representing 80% of ANZ fees, which fell by 18%. Perm down 52%, impacted by extremely tough Private sector markets
- **Germany:** fees down 33%. Temp & Contracting down 34%, with resilience in Contracting, although Temp was very difficult with significant under-utilisation of workers and one-off costs. Perm down 29%
- **UK & Ireland:** fees down 42%. Temp down 30% and Perm down 58%. Private sector markets were particularly tough with fees down 46%; Public sector down 30%
- **Rest of World:** fees down 31%. EMEA ex-Germany declined by 32%, with France and Belgium both down 44%, although Switzerland performed strongly with fees up 6%. The Americas fell by 30%, including the USA down 18%. Asia fell 28%, with Japan and Greater China down 29% and 33% respectively
- Net cash of c.£365 million (or c.£485 million including short-term deferrals of tax payments; 31 Dec 2019: £13.2 million; 30 June 2019: £129.7 million). Strong underlying cash generation, with c.£110 million inflow driven by a partial unwind in Temp debtors. Our c.£196 million equity raise adds substantial financial strength

Commenting on the Group's performance, Alistair Cox, Chief Executive, said:

"The pandemic has severely impacted all our markets globally. As it developed, our priority was to look after all our people and to support our business as it adjusted immediately to new realities. Facing conditions far harsher than any I have known, our business stood up well to that test. I am immensely proud of the commitment and innovation shown by all our colleagues in helping our clients and candidates deal with the crisis. Overall, we have both protected our business, while taking actions to appropriately reduce costs.

"Conditions in all regions were extremely tough, although ANZ, the USA and Asia performed better than the Group average, as did IT, our largest global specialism. Overall, Temp outperformed Perm, illustrating the relative resilience of the business we have purposely built. Looking ahead, although the outlook remains highly uncertain there are tentative signs of stability. With our strongest ever balance sheet and market leading positions in key businesses, we are confident we can take further market share and will invest in organic opportunities to accelerate our return to growth. Lastly, I would like to sincerely thank our shareholders, colleagues and other stakeholders as their deep support and commitment has helped ensure we can face our future with confidence."

Group

Q4 trading review

In our fourth quarter, ended 30 June 2020, Group net fees decreased by 34% on a headline and like-for-like basis versus the prior year.

Like-for-like net fees in Temp (64% of Group fees) and Perm (36% of Group fees) declined by 26% and 44% respectively. Overall, our largest specialism of IT (29% Group fees) fell by 17%, Construction & Property fell by 44% and Accountancy & Finance by 39%.

Throughout the pandemic, our primary aim has been to protect our colleagues, clients and candidates, and our business infrastructure. The Board would like to sincerely thank our colleagues for ensuring complete business continuity through hugely challenging circumstances. Excluding the UK, 85% of our offices are currently open and are working under a hybrid model.

Throughout remote working, consultant interactions with clients and candidates have remained very strong, and we saw some notable client wins in Hays Talent Solutions, including nine new clients and five existing clients expanding to new geographies. We also launched Hays Thrive globally, our unique and free-to-use employee training and wellbeing platform. This has been highly successful, and we are excited by its potential, with 13,000 client sign-ups (including 5,000 new clients) thus far and 51,000 individuals registering learning accounts.

Costs & FY20 operating profit outcome

The Group's periodic cost base decreased from c.£73 million pre-Covid to c.£58 million as we exited the quarter, a reduction of 21%. We actively reduced our variable and discretionary costs, and Group headcount decreased by 9% in the quarter and by 9% year-on-year. In addition, at 30 June 2020, 18% of Group employees were either in job support schemes, short-time working arrangements or had voluntarily reduced their pay, including senior management. Given the tough environment, the Executive Directors agreed that no FY20 bonuses will be paid to them, or members of the Management Board.

These cost reduction measures meant that the Group traded at a broadly break-even level through the fourth quarter. We expect full-year operating profit before exceptional items to be in the £130-135 million range for the year to 30 June 2020.

Exit rate & near-term outlook

The Group's net fee exit rate on a working day-adjusted basis was in line with the overall like-for-like net fee growth rate in the quarter.

While we will remain focused on managing our costs, we expect our cost base to increase as we enter FY21. We will incur more normal levels of operating and employee costs as we begin to return to normal working practices, reverse voluntary pay reductions and as job support arrangements end. These cost increases and continued tough market conditions mean that we anticipate being modestly loss-making over the summer months. A return to profitability thereafter will require a sequential increase in fees, which in the early phase of a recovery should deliver a very high rate of incremental profit drop-through.

We have recently completed a strategic 'Return to Growth' review of each division and agreed accelerated investment plans in attractive structural growth markets, such as our IT and large Corporate Accounts businesses. We are confident that these investment projects can accelerate our medium-term growth and position us to take market share.

Looking forward, exchange rate movements remain a material sensitivity to the Group's reported profitability.

Australia & New Zealand (18% net fees)

Net fees in Australia & New Zealand (ANZ) declined by 28%. While market conditions were very difficult, lockdown restrictions in Australia were relatively less impactful on our business than in other parts of the world.

Our Temp business, which represented 80% of our ANZ net fees, showed relative resilience including some short-term Covid related contract wins, and declined by 18%. Perm net fees fell by 52%. Public sector net fees, which represented 37% of ANZ, decreased by 22% while Private sector net fees fell by 31%.

Australia net fees decreased by 28%. Our largest regions of New South Wales and Victoria, which represented 52% of Australia net fees, declined by 35% and 31% respectively. Queensland decreased by 27%, Western Australia by 16% and ACT by 12%.

At the Australia specialism level, Construction & Property, our largest business, declined by 34%. Office Support and Accountancy & Finance were also very difficult, both decreasing by 48%. More positively, IT was far less impacted, down 13%, as were larger clients, with Hays Talent Solutions down 4%.

New Zealand, which had a more stringent lockdown than Australia and which represented c.4% of ANZ net fees, decreased 42%.

Consultant headcount decreased by 13% in the quarter and by 20% year-on-year.

Germany (26% net fees)

Net fees in Germany fell by 33%, heavily impacted by the effect of the pandemic, and specifically by under-utilisation in our Temp business. Excluding the impact of Temp severance costs, Germany fees decreased by 27%. Overall business confidence remains low and clients are closely controlling costs, particularly in the Manufacturing and Automotive sectors, although there are some signs of stability in sectors such as IT and Life Sciences.

Our largest Germany specialism of IT decreased 23%, while our second largest, Engineering, declined by 52%. Construction & Property and Accountancy & Finance were also tough, down 26% and 24% respectively. Life Sciences and Sales & Marketing were relative outperformers, down 12% and 14% respectively.

Our largest area of Contracting (70% of Germany fees), which is primarily in the IT sector and where we operate a freelance model, was resilient and fees declined by 12%. Most assignments continued under remote working.

Temp (12% of fees), where we employ temporary workers as required under German law, primarily in Automotive and Manufacturing sectors, was significantly weaker and fees declined by 72%. Average Temp volumes decreased by 22%, but fees were also significantly impacted by the under-utilisation of our Temp workers due to the widespread client closures of their Engineering and Manufacturing sites. Although we received some support from the German short-time working scheme, the net reduction in billable hours impacted fees by £6.8 million, or down 30% year-on-year. In addition, given the significantly reduced levels of demand from our clients and the tough market outlook, we took the decision to release c.420 Temps at a one-off cost of £4.3m, and which reduced net fees by a further 20% in the quarter.

Perm, which represented 18% of Germany net fees, declined by 29%.

Consultant headcount decreased by 6% in the quarter and by 12% year-on-year.

United Kingdom & Ireland (21% net fees)

Net fee growth in the United Kingdom & Ireland (UK&I) decreased by 42%, in extremely tough market conditions. The Private sector, 68% of UK&I net fees, fell by 46% and was more impacted than the Public sector, which decreased by 30%.

Net fees in Temp, which represented 70% of UK&I net fees, decreased by 30%, while Perm markets were tougher still and decreased by 58%.

All regions traded broadly in line with the overall UK business, although our largest UK region of London slightly outperformed the UK average and decreased by 37%, while the North West declined by 53%. Hays Talent

Solutions, which services larger corporate clients, was less impacted and fell by 28%. In Ireland our business declined by 44%.

At the specialism level, IT was a relative outperformer, with fees down 9%. However, Accountancy & Finance and Office Support were much tougher, both falling 53%, as was Construction & Property which fell by 51%. Life Sciences was the sole sector to grow, benefiting from some additional Covid-19 contract work, up a strong 25%.

Consultant headcount decreased by 7% in the quarter and by 6% year-on-year.

Rest of World (35% net fees)

Our Rest of World (RoW) division, comprising 28 countries, saw net fees decline by 31% in very tough conditions. Perm, which represented 61% of RoW net fees, fell by 39% while Temp was less impacted and fell by 13%.

EMEA ex-Germany (57% of RoW net fees) net fees decreased by 32%. Fees in our largest RoW country of France declined by 44%, while Belgium and Spain declined by 44% and 47% respectively. However, Switzerland was a significant stand-out with fees up 6%, while Poland fell by 14%.

The Americas (22% of RoW) net fees decreased by 30%. The USA, our second-largest RoW country, decreased by 18%, helped by our significant exposure to IT and despite very tough Construction & Property markets, although Canada was much weaker and fell by 45%. Latin America was also very tough and fell by 51%.

Asia (21% of RoW) net fees decreased by 28%. Greater China fell by 33%, although we did see some improvement through the quarter. Fees in Japan fell by 29%, although Malaysia was a stand-out performer and grew by an excellent 23%.

Consultant headcount decreased by 10% in the quarter and by 8% year-on-year.

Cash flow and balance sheet

Net cash of c.£365 million (c.£485 million including short-term deferrals of tax payments; 31 Dec 2019: £13.2 million; 30 June 2019: £129.7 million). Strong underlying cash generation in the quarter, with c.£110 million inflow driven by a partial unwind of our Temp trade debtor book and an excellent reduction in debtor days in the quarter to 34 days (30 June 2019: 35 days).

On 2 April 2020 we raised c.£196 million net of fees via an equity raise. Our financial strength underpins our strategy and gives us significant confidence for the future, despite highly uncertain markets. We are very grateful for the support of our shareholders and are determined to build on our market-leading positions globally by supporting our clients and capturing additional market share.

During the quarter, we were admitted into the Bank of England's uncommitted Covid Corporate Financing Facility (CCFF). While this provides access to an additional short-term form of financing up to £600 million, based on current forecasts we are highly unlikely to utilise this facility. This is in addition to our £210 million revolving credit facility, which runs until 2024.

Enquiries

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Conference call

Paul Venables and David Phillips of Hays plc will conduct a conference call for analysts and investors at 8:00am United Kingdom time on 16 July 2020. The dial-in details are as follows:

Dial-in number	+44 (0) 20 3003 2666
Dial-in number (UK toll free)	+44 (0) 80 8109 0700
Password	Hays

The call will be recorded and available for playback for seven days as follows:

Replay dial-in number	+44 (0) 20 8196 1998
Access code	6141874#

Reporting calendar

Full-year results for the year ended 30 June 2020	27 August 2020
Trading update for the quarter ending 30 September 2020	15 October 2020
Trading update for the quarter ending 31 December 2020	14 January 2021

Appendix: Q3 FY20 net fee summary

In our trading statement of 2 April 2020, we reported like-for-like Group net fees of (5)% for the period 1 January 2020 - 13 March 2020. To help analysts and investors, and retain consistent quarterly disclosures, the table below presents Group net fees for the three months to 31 March 2020:

Growth in net fees for the quarter ended 31 March 2020 (Q3 FY20)

(versus the same period last year)

	Growth	
	Actual	LFL
By region		
Australia & New Zealand (ANZ)	(13)%	(7)%
Germany	(11)%	(10)%
United Kingdom & Ireland (UK&I)	(7)%	(7)%
Rest of World (RoW)	(5)%	(4)%
Total	(8)%	(7)%
By segment		
Temporary	(6)%	(5)%
Permanent	(11)%	(10)%
Total	(8)%	(7)%

Hays Group overview

As at 30 June 2020, Hays had c.10,400 employees in 266 offices in 33 countries. In many of our global markets, the vast majority of professional and skilled recruitment is still done in-house, with minimal outsourcing to recruitment agencies, which presents substantial long-term structural growth opportunities. This has been a key driver of the diversification and internationalisation of the Group, with the International business representing c.77% of the Group's net fees in FY20, compared with 25% in 2005.

Our c.7,000 consultants work in a broad range of sectors. Our expertise stretches across 20 professional and skilled recruitment specialisms, and during FY20 our three largest sectors of IT (25% of Group net fees), Accountancy & Finance (15%) and Construction & Property (12%) together represented 52% of Group net fees.

In addition to this international and sectoral diversification, in FY20 the Group's net fees were generated 59% from temporary and 41% permanent placement markets, and this balance gives our business model relative resilience.

This well-diversified business model continues to be a key driver of the Group's financial performance.

Cautionary statement

This Quarterly Update (the "Report") has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority and is not audited. No representation or warranty, express or implied, is or will be made in relation to the accuracy, fairness or completeness of the information or opinions contained in this Report. Statements in this Report reflect the knowledge and information available at the time of its preparation. Certain statements included or incorporated by reference within this Report may constitute "forward-looking statements" in respect of the Group's operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance shall not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities shall not be taken as a representation that such trends or activities will continue in the future. The information contained in this Report is subject to change without notice and no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this Report shall be construed as a profit forecast. This Report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for any shares in the Company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares of the Company or any invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000. Past performance cannot be relied upon as a guide to future performance. Liability arising from anything in this Report shall be governed by English Law, and neither the Company nor any of its affiliates, advisors or representatives shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this Report or its contents or otherwise arising in connection with this Report. Nothing in this Report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

This announcement contains inside information.

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