HAYS Recruiting experts worldwide

# TRADING UPDATE & EQUITY PLACING

**2 April 2020**

HAYS Recruiting experts worldwide

# Trading update & equity placing

Given the rapidly-developing global Covid-19 situation, Hays provides an update on current trading and announces an equity placing targeting gross proceeds of approximately £200 million.

Hays has identified four immediate priorities:

- Protecting the health, safety and wellbeing of its employees, clients, temps and candidates.
- Delivering full operational capability with remote working and providing high service levels to all our stakeholders.
- Reinforcing the Group's strong financial position.
- Positioning the Group to gain market share from blue-chip clients, both in the near-term and as our end markets stabilise.

## Current trading

Trading between 1 January and 13 March was in line with our expectations, with like-for-like net fees down c.5% year-on-year. However, since then the rapidly escalating impact of Covid-19 has driven a very material deceleration in client and candidate activity. To date, across our major markets, the impact has been felt most in Europe, and least in Australia. Permanent recruitment (c.42% Group fees) has seen more of an impact than Temporary (c.58% Group fees), and the Private sector (c.83% Group fees) has been more impacted than the Public sector (c.17% of Group fees), which has been broadly resilient. To date, Hays Talent Solutions, our large corporate account business, which predominantly places Temp and Contracting candidates, has also shown relative resilience.

Considering the uncertainties arising from Government restrictions worldwide on working and movement and how long these may remain in place, it is not currently possible to estimate the extent of the impact on the Group's earnings this financial year and beyond. However, we expect the impact will be substantial and Group operating profit for the year to 30 June 2020 is, therefore, likely to be materially below the £190m consensus average shown on Bloomberg (as at 30 March 2020).

## Management actions

Our Executive team, which has been together for many years and successfully navigated the GFC, and our highly experienced regional management teams are taking all available actions to ensure Hays can withstand significant short-term pressures. In addition, management is seeking to ensure Hays is in the best possible position to gain market share once our end markets stabilise.

We have established an Executive sub-committee to closely monitor market conditions and update our advice to employees, temps and clients. This is helping to share best practice in business continuity planning and ensures our global operations are effectively coordinated. Most of our consultants are now working from home and business continuity plans are working well. The main exception is China, where all our offices have re-opened.

We are taking decisive steps to actively manage our costs and further strengthen our financial position. The following actions have already been initiated:

- **Cost base**: our aim is to proactively manage our cost base in the short-term, while protecting the core of our business to take advantage of medium and longer-term opportunities. Our monthly cost base, prior to Covid-19, was c.£70 million, with c.£25 million fixed and c.£45 million variable. To date, our actions have included stopping all hiring and appropriately managing our headcount, reducing senior management pay, eliminating all discretionary costs including non-essential capital expenditure, and reducing previously committed costs such as advertising. As in previous downturns, this will provide significant protection in the event of a prolonged downturn, albeit with a time lag.
- **Dividends**: the Board has taken the decision to cancel the 1.11p per share interim dividend which was due to be paid on 9 April 2020 to holders of ordinary shares on the register at the close of business on 5 March 2020. The interim dividend was expected to result in a payment of £16.3 million. The Board is

highly conscious of the importance of its dividend to shareholders and will look to return to paying dividends at the appropriate time.

- **Tax deferrals:** we have had positive discussions with fiscal authorities globally to secure local support for our businesses and appreciate the speed and scale of government responses. Based on the discussions held directly with tax authorities thus far, we are confident that we will secure significant tax payment deferrals of more than £100 million across the UK, Germany and Australia. The timings of these deferrals range from 3 to 12 months.
- **Other Government initiatives:** in many of our Group countries, there are existing and newly-initiated furloughing and short-time working arrangements. It is, as yet, too early to quantify the benefit of such schemes on our own business and our Temp workers in different countries. We are, however, in active discussions to explore all such options.

# Financial position

As at 27 March 2020, the Group's net cash position was c.£35 million (31 December 2019: £13.2 million). The Group has significant committed borrowing facilities of £210 million, expiring in November 2024, of which c.£165 million is currently undrawn. The financial covenants attached to our committed facilities are that EBITDA should be at least 4x interest and total borrowings should be no greater than 2.5x EBITDA. At 31 December 2019, the former covenant ratio was 240:1; the latter was not applicable due to our net cash position. Given the management actions being taken, the Company also expects to meet its covenant thresholds as at 30 June 2020.

In addition, we are exploring other financing options such as government schemes across the world, including being at an advanced stage in seeking access to the Bank of England's Covid Corporate Financing Facility (CCFF), to further strengthen our financial position.

# Strategy & outlook

Hays' strategy, which has been consistent for many years, is to be the undisputed global leader in white collar specialist recruitment. Our business model is based on having unrivalled scale and breadth across geographies, sectors and recruitment contract types.

During the GFC, Group net fees fell by c.40% from peak to trough over a c.9-month period. However, it is too early to form any definitive view as to the impact of Covid-19 on our business. As part of our analysis, we have modelled a stressed scenario with immediate declines in net fees of c.70% year-on-year during this initial 'lockdown' phase (assumed to be 4 months). We also included sensitivities whereby our debtor days materially increase during the initial phase. We then modelled a gradual reduction in the downturn such that net fees are c.35% down YoY by the end of December 2020.

Under this scenario, and implementing the proactive cost reductions noted earlier, we could reduce our total cost base by up to c.£20 million per month by December 2020. Accordingly, we expect our robust business model to be able to manage such a downturn and stay within the headroom of our current banking facilities, even if we reclassify the cash benefits from tax deferrals as debt. However, we would be left with material levels of residual debt.

Encouragingly, in recent weeks we have seen growing interest from many existing and prospective large blue-chip clients looking to consolidate their white-collar recruitment outsourcing with a financially strong partner. We expect this to increase further over the coming months. We believe that our industry is likely to see a material 'flight to quality' both during and in the aftermath of Covid-19. Therefore, while the current environment is highly challenging, there remain significant and attractive opportunities in our markets – both in the short and longer-term.

HAYS Recruiting experts worldwide

## Background to equity placing

Over recent years Hays has consistently operated with a net cash balance sheet, and strongly believes this gives valuable confidence to both our clients and investors.

To ensure that we have a strong balance sheet and can continue with minimal or no debt once our end markets stabilise, the Board has concluded that it is prudent to now raise equity. This will both provide the Group with a further liquidity buffer and importantly best allow us to pursue organic growth opportunities with new and existing blue-chip clients. We are already seeing such opportunities begin to emerge and expect further vendor consolidation from our clients when markets stabilise.

Accordingly, Hays has separately announced today its intention to conduct a non-pre-emptive placing of new ordinary shares of the Company targeting gross proceeds of approximately £200 million.

Hays Directors and members of the Executive management team, including the Chairman, CEO and FD, have committed to participate alongside the equity raise and intend in aggregate to contribute c.£100k.

**Commenting on the unprecedented global situation, Alistair Cox, Chief Executive, said:**

“The past few weeks have been unlike anything the world has seen in modern times and has severely impacted recruitment markets globally. These are hugely challenging times and I would like to thank sincerely all our colleagues at Hays for their support and commitment. Governments across the world also deserve major credit for the scale and speed of their response to support individuals and businesses through the Covid-19 pandemic.

“Today’s equity fundraise is designed to further reinforce our business so that we are strongly placed to build on our market leading positions globally by supporting our clients and capturing additional market share.”

## Enquiries


| | | |
|---|---|---|
| **Hays plc** | | |
| Paul Venables | Group Finance Director | +44 (0) 20 3978 2520 |
| David Phillips | Head of Investor Relations | +44 (0) 20 3978 3173 |
| **Finsbury** | | |
| Guy Lamming | | hays@finsbury.com |
| Anjali Unnikrishnan | | |


## Next newsflow

| | |
|---|---|
| Trading update for the quarter ending 30 June 2020 | 16 July 2020 |
| Full-year results for the year ending 30 June 2020 | 27 August 2020 |

Hays Recruiting experts worldwide

# Cautionary statement

This Trading 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.
LEI code: 213800QC8AWD4BO8TH08