HAYS Recruiting experts worldwide

Q2 FY22 TRADING UPDATE
THREE MONTHS ENDED 31 DECEMBER 2021

CONFERENCE CALL PREPARED REMARKS

13 January 2022

INTRODUCTION

< Paul Venables, Group Finance Director >

Thank you, David, good morning everybody and thanks for joining us at short notice for this re-arranged call.

I will present the highlights and key themes of today's update, and discuss regional performances, before taking questions. As usual, all net fee growth percentages are on a like-for-like basis versus prior year unless stated otherwise.

PERFORMANCE OVERVIEW

In Q2, we delivered record quarterly fees, up 37% which is ahead of market expectations, with excellent growth in all regions, and November delivered an all-time fee record.

Currency translation had a significant negative impact, decreasing headline net fees by c.5%. There were no material working day adjustments in the period.

I'd highlight the following key features:

1. We delivered quarterly fee records in 16 countries including the strategically important markets of the USA and China. In Germany, our largest business, we delivered record contracting fees.
2. Growth was led by Perm, up an excellent 61%, and Temp increased by 22%, with volumes and margins improving through the quarter.
3. Fees in the quarter were 11% above two years ago, with Perm up 19% and Temp up 6%.
4. At the specialism level, Technology, our largest global specialism at 25% of Group fees, delivered another record quarter, with fees up 33%. Technology fees are now 20% above pre-pandemic levels.
5. Consultant productivity remained at near record levels, despite increasing consultant headcount by 6% or c.480 in the quarter. Headcount is now up 26% YoY as we continue to invest to capitalise on the cyclical recovery and strategic growth opportunities.
6. Our net fee exit rate in December was 34%, despite a tougher growth comparative.
7. Cash performance was good, and we ended the quarter in a strong financial position with net cash of c.£235m, in line with our expectations. This is after having made dividend payments of £170m in November
8. Finally, as a result of the strong fee performance, FY22 operating profit is expected to be c.£200 million, ahead of consensus market expectations.

I will now comment on the performance of each division in more detail.

AUSTRALIA & NEW ZEALAND (ANZ)

Our ANZ division, 16% of group fees, increased by 31%, with momentum improving following the lifting of lockdowns in October.

Perm, 36% of ANZ fees, was up an excellent 75%, while Temp increased by 15% against a relatively resilient performance last year. The Private sector, 62% of fees, increased by 36%, while Public sector grew by 24%.

Australia increased by 30%, led by New South Wales, up 39%. Our two largest specialisms, Construction & Property and Technology, grew 11% and 44% respectively. New Zealand, 8% of ANZ fees, delivered a fee record and increased by an excellent 56%.

Consultant headcount in ANZ increased by 3% in the quarter and 29% year-on-year.

GERMANY

Germany, our largest business representing 25% of group fees, grew by 37%, with activity improving through the quarter and fees growing sequentially versus Q1 FY22. November produced a monthly fee record.

Overall business confidence continued to improve with clients increasingly investing in new, and extending existing, projects.

Contracting, 57% of German fees, delivered a record quarter. Fees grew by 22% driven by 27% growth in contractor volumes, with average contractor volumes 10% above prior peak levels. This was partially offset by 5% lower average weekly hours per contractor.

Temp, which is mainly in Engineering and Manufacturing, continued to recover, up 68%, or 51% excluding the effects of Temp severance costs in FY21. Volumes improved through the quarter, although given slower recovery in the Automotive & Manufacturing sectors, remain 18% below pre-pandemic levels.

Perm delivered an excellent performance up 58%.

Consultant headcount increased by 5% in the quarter and 12% year-on-year.

UNITED KINGDOM & IRELAND (UK&I)

The UK & Ireland, 23% of group fees, increased by 33%, with sequential growth versus Q1 FY22, led by an excellent Perm performance, up 69%, and Temp up 13%. Private sector fees increased by 46%, with the Public sector up 12%.

Most regions traded broadly in line with the overall business, except the East of England and Scotland, which grew by 44% and 39%. Our largest UK region of London grew by 34%, including London City, which is predominantly private sector focused, up an excellent 68%.

At the specialism level, we saw excellent growth in Technology up 43%, and Accountancy & Finance up 48%, while the fastest growth in our other larger specialisms was in HR up 105%.

Consultant headcount increased by 7% in the quarter and 23% year-on-year.

REST OF WORLD (RoW)

Rest of World, representing 36% of group fees and comprising 28 countries, grew by 41%, with 15 countries delivering quarterly records. Perm, 68% of RoW fees, increased by 55%, with Temp up 20%.

In **EMEA-ex Germany**, fees increased by 33% and activity levels remained high. Our largest RoW country of France was up 33%, and 10 countries delivered record quarter fees, including Switzerland, up 30%, Poland 45% and Spain 28%.

The Americas grew by 55%, including records in the USA, our second-largest RoW country, up 51%. Brazil grew by an excellent 79%.

Asia fees increased by 53%. Both China, our third-largest RoW country and up 59% and Malaysia, up 53%, delivered fee records.

Consultant headcount was up 7% in the quarter and 35% year-on-year.

CASH FLOW AND BALANCE SHEET

Cash collection was good, and we ended the quarter in a strong financial position with net cash of c.£235m, in line with our expectations. This was after paying c.£170m in core and special dividends in November.

CURRENT TRADING and GUIDANCE

I would make the following points:

1. The As usual, our New Year ‘return to work’ trends will be a key driver of second half performance. It is too early to quantify how the Omicron variant will impact trading.

2. After significant investment in consultant headcount over the last 12 months, we expect investment to moderate to 2-4% over the next quarter, with headcount growth mainly in Germany and in our Strategic Growth Initiatives, which continue to perform very well. Consultant productivity remains very high and close to record levels and we expect to increase consultant productivity further as productivity of the newer consultants ramps up in the coming quarters.
3. The strengthening of Sterling versus the Euro and Australian dollar represents a headwind to FY22 operating profit. If we retranslate our FY21 operating profit of £95m at 11th January 2022 exchange rates, operating profit would decline by c£7m, a £2m deterioration versus the position at our Q1 FY22 trading update in October. Importantly, as Group operating profit increases materially in FY22, currency will have a much larger negative impact.
4. And as I mentioned earlier, as a result of our strong fee performance, FY22 operating profit is expected to be c.£200 million.

SUMMARY

While the Omicron variant creates some further uncertainties, recruitment markets are very strong, and candidate and client confidence remain at high levels. There are clear and increasing signs of significant skill shortages and wage inflation particularly at the higher salary levels.

Our focus for the second half will be on delivering substantial profit growth, while continuing to invest for the future.

As global economies continue to rebound, I am confident we will continue to take further market share as we invest in the cyclical recovery and take advantage of many structural growth opportunities. We are firmly focussed on positioning Hays as the clear market leader in the most attractive long-term sectors and geographies including Technology and Germany.

We look forward to providing a more detailed update of our strategy at our Investor Day on Thursday 28th April.

I will now hand you back to the administrator, and we are happy to take your questions.

< OPPORTUNITY FOR QUESTIONS >

CLOSING REMARKS

If that is all the questions for today, we'd like to thank you all again for joining the call.

I look forward to speaking to you next at our H1 FY22 results on 24th February 2022. Should anyone have any follow up questions, David, Charles and I will be available to take calls for the rest of the day.

Notes

- Given our June year end, Q2 FY20 represents the three months ended 31 December 2019, and Q2 FY19 represents the three months ended 31 December 2018.
- Bloomberg median consensus operating profit for FY22 on 11 January 2022 stood at £183.5 million.

Enquiries

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Reporting calendar

Half-year results for the six months ending 31 December 2021	24 February 2022
Trading update for the quarter (Q3 FY22) ending 31 March 2022	14 April 2022
Investor Day	28 April 2022

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