

HAYS PLC

INVESTOR CALL SCRIPT Q2: 14 JANUARY 2021

INTRODUCTION

Thank you, David, good morning everybody and thanks for joining us.

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

PERFORMANCE OVERVIEW

Net Fees were down (19)%, a significant improvement on the (29)% in Q1. While, the pandemic continued to significantly impact performance in Q2, trading improved through the quarter in both temp and perm and in every region. Our underlying exit rate was (16)%.

There were no working day adjustments in the period, but currency translation, had a slightly positive impact, increasing headline net fees by c.3%.

I'd highlight the following key features:

1. Having entered the quarter with gradually improving markets and a net fee run-rate of c.-26%, and despite lockdowns of varying degrees of severity in many of our markets, recovery across all our main markets accelerated. This delivered a strong end to the quarter.
2. As a result of stronger net fee performance, operating profit for H1 FY21 is expected to be c.£25 million.

3. We saw improvements in both Temp, down 13%, and Perm, down 26%. In October the recovery continued to be mainly in perm and in part helped by the filling of jobs previously “frozen” during previous lockdowns. But encouragingly, from November onwards, we saw the initial signs of an economic recovery with our Temp business starting to rebound strongly, especially in the UK&I, Germany, and the USA.
4. Net fee decline rates were similar in ANZ, Germany and UK&I, each down around 20%. Within RoW, EMEA performance was better at -15%, however this region faced easier YoY comparatives given French general strikes a year ago. The Americas improved to -12%, driven by the USA down 3%, and Asia remained more subdued and declined by 24%.
5. The rebound in public sector activity continued, with fees in Q2 down 7% versus a 14% decline in Q1. The rebound in the private sector was stronger, down 21% in Q2 versus minus 32% in Q1.
6. Group consultant headcount was flat in the quarter and decreased by 17% year-on-year. Our cost base increased modestly in the quarter to c.£65 million per period, primarily as consultant commissions increased proportionately with net fees and all of our offices were reopened. As a reminder, we exited all major government support schemes in Q1
7. Cash performance was strong. We ended the quarter with net cash of c.£380m, excluding short-term deferrals of tax payments.

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

Press only – so in summary, it was very encouraging to see the recovery in our markets prior to the most recent lockdown, with improvement both in our Temp and our Perm businesses.

Our **ANZ** division, 17% of group fees, declined by 19%. Temp, which represented 73% of ANZ fees, was relatively resilient, down 16%, and while Perm was down 27%, we saw sequential improvement across the quarter, particularly in the private sector once lockdown restrictions eased. The Private sector, which represented 61% of fees, declined by 22%, while Public sector fell 16%.

Australia decreased 20%. In New South Wales and Victoria, together 49% of our Australian business, net fees decreased 31% and 26% respectively. Queensland and ACT were relatively resilient, down 16% and 9% respectively, while Western Australia fared better still, up 1%.

At the Australian specialism level, Construction & Property declined by 27%. Office Support, down 35%, and Accountancy & Finance, down 26%, were also tough. IT was less impacted though, down 14%, smaller specialisms which represent c20% of the business were collectively down 5% and Resources & Mining was up a solid 4%.

New Zealand, c.6% of ANZ fees, fell 5% as activity continued to rebound following the relaxing of lockdown rules.

Consultant headcount in ANZ increased by 1% in the quarter but was down 19% year-on-year.

Conditions in **GERMANY**, our largest business at 26% of group fees, remained difficult, although encouragingly there are clear signs of improving business confidence generally, and stabilisation in the Automotive sector.

Our Contracting business, which represents 62% of Germany fees, significantly improved through the quarter and fees declined 8%.

Temp remained the weakest sub-sector, with fees down 36%. The drivers of this were:

- 1) Average temp volumes fell 30%, in line with the prior quarter following reductions in client demand in March-September 2020.
- 2) A further 124 temps were released in the quarter at a cost of £1.0m. This further reduced Temp fees by 6%

This said, Temp trends improved through the quarter and we currently do not expect further material negative impacts from Temp severance costs or under-utilisation in H2 FY21.

Perm, 15% of fees, declined by 31%.

Our German Public-sector business, 15% of Germany fees, delivered another excellent relative performance, with fees up 7%.

Our largest specialism of IT, 46% of Germany net fees, fell 10%. Engineering, our second-largest at 22% of Germany fees, improved but remained tough, down 31%. Accountancy & Finance, down 15%, and Life Sciences, up 3%, both improved through the quarter.

Consultant headcount increased by 1% in the quarter and declined by 12% year-on-year.

While conditions in **UK & IRELAND**, 22% of group net fees, again remained difficult, activity improved through the quarter, especially in Temp, where temp numbers increased by c4000 in the quarter. Overall Fees declined 20%, a c.14% improvement versus Q1. Temp, 64% of UK&I fees, decreased by 14% and Perm by 29%.

Both our Private and especially our Public-sector businesses showed sequential improvement versus Q1. Fees in the Private sector, 62% of UK&I, fell by 27% with the Public sector down 5%.

All regions traded broadly in line with the overall business, except for the North West, which declined by 9%, and the East, which fell 28%. Our largest UK region of London fell 23%. In Ireland, net fees declined by 28%.

At the specialism level, IT continued to be a relative outperformer, up 2%, as was our large Corporate Accounts business, down 13%. Our Education business, meanwhile, saw a significant sequential rebound, with fees down only 6%, although clearly the Education outlook in Q3 is likely to be severely impacted by schools closures. Construction & Property also rebounded in Q2 down (18)%

Our toughest areas remained Accountancy & Finance, down 34%, and Office Support, down 40%.

Consultant headcount increased by 1% in the quarter and declined by 20% year-on-year.

REST OF WORLD, comprising 28 countries and 35% of group net fees, declined by 16%, with Perm down 23% but Temp showed improved momentum and fell only 1%.

In **EMEA-ex Germany** fees reduced by 15%, representing a c.9% improvement versus Q1. Our largest RoW country of France declined 22%, while Belgium and the Netherlands were also tough, down 27% and 21% respectively. In Spain, trading improved, down 11%, while Switzerland and Poland were stand-out performers, down 5% and 1% respectively.

The Americas declined 12%, which represents a c.15% improvement versus Q1. The USA, our second-largest RoW country, showed its resilience and declined 3% with a strong rebound in C&P and Life Sciences, although Canada continued to be tough, down 32%. LatAm fell 11%, including Brazil down 4%.

In **Asia**, our fees fell by 24%. China, our third-largest RoW country, declined 25%, with Mainland China again significantly outperforming Hong Kong. Japan had another tough quarter, down 36%, although Malaysia continued to perform well, up a strong 14%.

Consultant headcount was down 1% in the quarter and down 16% year-on-year.

CASH FLOW AND BALANCE SHEET

Cash collection remained strong and we delivered a good underlying cash performance in the quarter, with net cash at 31 December of c.£380 million, excluding short-term deferrals of tax payments of c.£13m.

CURRENT TRADING and GUIDANCE

I would make the following points:

1. The Group's underlying net fee exit rate was (16)%.
2. It is too early to quantify the negative impact of new lockdowns in the UK and some of our key European markets. In December, over 95% of our offices were open, although the reintroduction of lockdowns means this percentage will be materially lower today.
3. As ever, our New Year 'return to work' trends will be a key driver of second half performance. As previously noted, any material sequential increase in profitability in H2 FY21 versus H1 FY21 will require a further significant uplift in net fees.

This is partly because, as with all prior years, the timings of public holidays mean there are fewer working days in our second half. In H2 FY21, Germany has eight fewer working days than H1 FY21, Australia six fewer and the UK five fewer. This has no impact on year-on-year comparatives but acts as a headwind on sequential second-half profit growth versus the first half, particularly in our Temp and Contracting businesses.

Additionally, our 'Return to Growth' investment programme is well on track and we continue to expect to incur c.£15 million of additional operating expenditure in FY21. This will be weighted to the second half, with c.£4 million invested in H1 FY21 and a further c.£11 million expected in H2. This will increase our H2 cost base by c.£1m per period versus current levels.

4. Overall, we expect headcount will increase sequentially by 2 to 4% in Q3 FY21, mainly due to the acceleration in our 'Return to Growth' investment programme.

5. As with FY20, Easter falls entirely in our fourth quarter. We therefore expect no material working day effects year-on-year in either Q3 or Q4 FY21vs prior year.
6. Finally, some technical guidance on tax. As Group operating profits are recovering from a very low base, and as our H1 profits are predominantly in high tax jurisdictions, at this stage it is very difficult to accurately predict our ETR for FY21. Our best estimate is that ETR will be broadly similar to FY20, [i.e. c.40%]. But, going forward, as Group profitability returns to £100m or more, we expect Group ETR will be around the 30% rate we reported in recent years.

In conclusion, despite the ongoing pandemic we saw an encouraging acceleration in trading through the quarter. Clearly, recent lockdowns in UK&I and Europe present significant near-term pressures, however, the world now has 'line of sight' of a possible exit path from the pandemic via vaccine programmes. Our strong end to Q2, plus signs of improving business confidence prior to the most recent lockdowns, give us increasing confidence on our prospects for substantial profit recovery in FY22, 23 and beyond.

Our highly experienced management teams are focused on best-positioning the business for any recovery, including our Return to Growth programme. With our strong balance sheet and leading positions in key sectors, we are confident we will continue to take further market share as clients and candidates look for expert guidance to navigate the pandemic and beyond.

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

Q&A

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 FY21 results on 18th February 2021. Should anyone have any follow up questions, David, Charles and I will be available to take calls for the rest of the day.