Full Year Results

12 months ended 31 December 2018

Chris Pullen **Chief Executive Officer**

Mike Watts **Chief Financial Officer**

Staffline

2018 strategic priorities
Creating the platform for future growth

	Strategic Priority	Status
Recruitment	• Priority for Group capital allocation	• On-going

Recruitment	• Digital Strategy as key competitive differentiator
	  • Worker Experience Strategy – industry leading and unique
	  • Digital candidate attraction and on-boarding
		• Worker engagement up 10 to 29
		• Attrition down 23%
		• Unique website visits up nearly 50%

Recruitment	• New commercial approach
	  • Improve commercial terms as a result of service differentiation
	  • Worker engagement as a service
		• Early successes in contract negotiations
		• New future service offering

Recruitment	• Culture - fundamental change	• Complete
PeoplePlus	• PeoplePlus transition from Work Programme focussed to UK's leading skills and training business	• Complete • Final WP revenues in H1 2019 • Final exit costs incurred in 2018
PeoplePlus	• Market leading Apprenticeship Levy operator	• 10% share of growing Levy market • LearnDirect fully integrated
PeoplePlus	• Improve contract portfolio to enhance quality of earnings	• Strong progress

Full Year Results
FY18 Financial Highlights

Group revenue

£1,128m

Up 18%
(2017: £958m)

Recruitment up 21%
PeoplePlus down 6%

Diluted EPS*

110.1p

Down 2%
(2017: 112.6p)

Group operating profit*

£39.1m

Flat on 2017

(2017: £39.1m)

Recruitment up 19%
PeoplePlus down 21%

Net Debt

£63.0m

FY 2017: £16.5m,
acquisitions: £49.6m

1.44x underlying 2018 EBITDA

£150m re-financing

Group operating margin*

3.5%

Down 60bps

(2017: 4.1%)

Recruitment flat
PeoplePlus down 260bps

Final Dividend

nil

Dividend suspended

* Underlying

Group Financial Performance

FY18 Results

Group

	Recruitment FY 2018 £m's	People Plus FY 2018 £m's	Total Group FY 2018 £m's	Recruitment FY 2017 £m's	People Plus FY 2017 £m's	Total Group FY 2017 £m's
Sales revenue	1,020.0	107.5	1,127.5	843.3	114.5	957.8
Gross profit	81.5	40.4	121.9	66.1	47.7	113.8
Gross profit margin	8.0%	37.6%	10.8%	7.8%	41.7%	11.9%
Underlying operating profit	24.1	15.0	39.1	20.2	18.9	39.1
Operating profit margin	2.4%	14.0%	3.5%	2.4%	16.5%	4.1%

- **Group revenue up 17.7%** of which 0.3% is organic.
- **Recruitment revenue** growth of £176.7m (21.0%). Benefit of six acquisitions in year. Organic Recruitment growth £16.7m (1.9%)
- **Recruitment conversion** of Gross Profit to Operating Profit constant at 30% vs 2017
- **PeoplePlus revenue** decline reflects Work Programme run off, but strong cost controls in place to limit margin fall
- **Group underlying operating profit margin** reflects increased weighting towards Recruitment

FY18 Results

Group

Year ended 31 December	Underlying 2018 £m	Underlying 2017 £m
Operating Profit	39.1	39.1
Finance Costs	(3.1)	(2.8)
Pre tax profit	36.0	36.3
Taxation	(7.2)	(7.3)
Post tax profit	28.8	29.0
Dividend PS (p)	11.3	26.7
Basic Earnings PS (p)	110.1	113.2
Diluted Earnings PS (p)	110.1	112.6
Dividend cover (x)	N/A	4.2

Exceptional Items		
Amortisation of intangible assets arising on business combinations	11.8	8.8
Share based payment (credit)/charge	1.2	3.3
Reorganisation costs – cash	10.6	-
Reorganisation costs – non cash	3.2	-
NMW Remediation and Penalty	15.1	-
Audit Fees	1.8	-
Acquisition related costs	1.9	0.1
	45.6	**12.2**

- **Final dividend suspended –** Interim dividend was 11.3p
- **Trading exceptional items**
  - Provision for NMW remediation for historic underpayment of preparation time, plus associated HMRC penalty
  - PeoplePlus transformation costs for Work Programme exit
    - People - £4.2m
    - Properties - £3.7m
    - IT costs - £2.7m
  - Asset write down (non cash)
  - Acquisition deal fees
  - Additional audit fees for extended audit scope

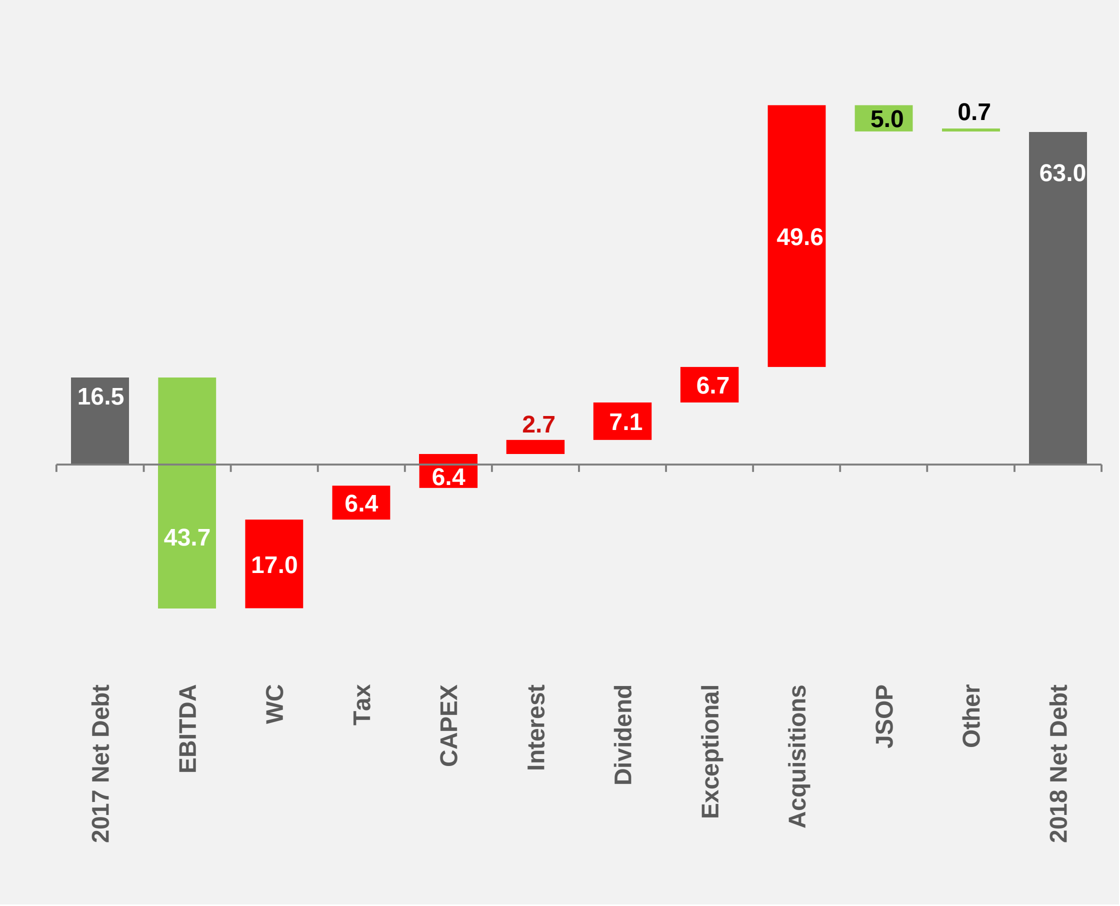
Net Debt

2018 net debt driven by working capital and M&A

Key drivers of net debt increase

- Net debt increase includes acquisition costs of £49.6m
- Working capital expansion timing impact of £8.0m, comprising:
  - Late collections
  - Deferred payments
  - LDA
  - OLASS
- Structural working capital impact of £9.0m, comprising:
  - Extended payment terms
  - M&A
  - VAT
- Exceptional cash costs of £6.7m

	31 Dec 2018 £m	31 Dec 2017 £m
Debt	79.2	47.8
Cash	16.2	31.3
Net Debt	63.0	16.5



Recruitment

FY18 Headlines

Recruitment

Financial highlights:

Revenue

£1,020m

Up 21% with organic +2% and benefit of acquisitions

(2017: £843m)

Underlying Operating Profit

£24.1m

Increased 19% (2017: £20.2m).

Organic flat year on year

Profit margin

2.36%

In line with 2017

Operational highlights:

Technology

- Clear market differentiation
- Increased worker attraction and retention
- Partner of choice

Acquisitions

- 6 acquisitions in year
- All fully Integrated, synergies achieved

Organic Growth

- Economic environment created Q4 headwinds
- Headwinds continued into H1 2019
- Worker supply remains strong

Recruitment update at a glance

- Size and scale providing resilience, but headwinds in 2019
- Engagement platform provides competitive differentiation
- Consolidation trend continues
- Growth opportunities with new and existing blue chip clients

Customers' locations

463

2017: 337

Peak workforce

60,300

fully flexible workers

Recruitment market share

11%

2017: 9%

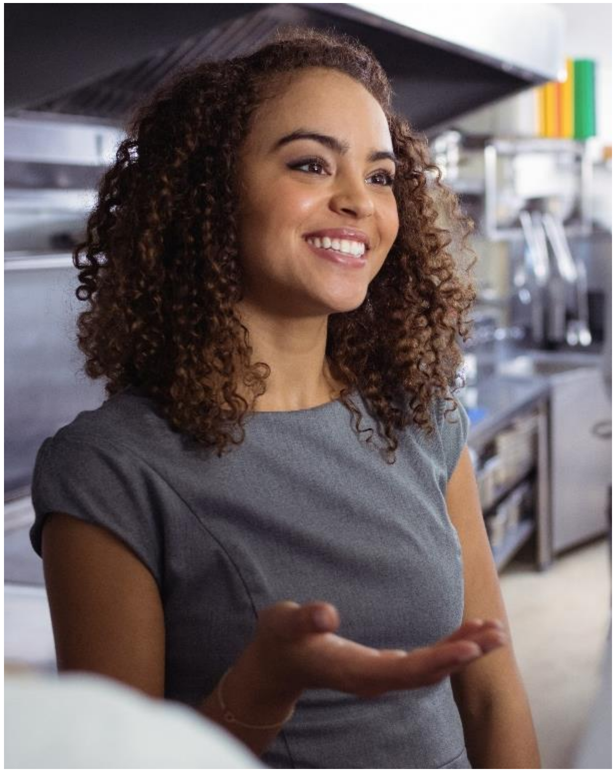
Food

70%

of revenues

Customer Experience
Benefits delivered

- **NPS* increased by 10 points to 29**
- **23% reduction in attrition Q4 on Q4**
- **120% increase in candidate applications through the website**
- **11% increase in recruitment**
- **Nearly 50% increase in unique visitors to our website – over 1m in last 12 months**
- **Record 50,000 direct to Staffline website applications in May 19**

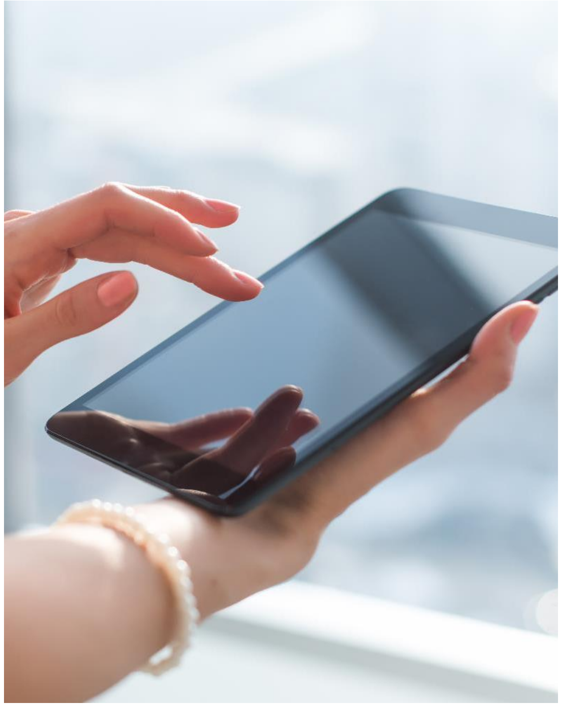


* Net Promoter Score

Active contract management leads to better margin

Case Study

- **Delivered best and highest peak in December 2017**
- **Productivity per worker improved**
- **NPS has improved from -22 in March to +4 in November**
- **Worker retention higher than market average**



Through worker engagement and productivity initiatives, Staffline has secured a contract extension of 4 years and increased our hourly fee by c.30%

PeoplePlus

FY18 Headlines

PeoplePlus

Financial highlights:

Revenue

£107.5m

Down 6% as Work Programme runs off (2017: £114.5m)

Underlying Operating Profit

£15.0m

Reduced 21% (2017: £18.9m)

Costs reduced by

£3.1m

Reduced 3% (includes costs of LDA acquisition). Strong cost control programme and low operational gearing.

Operational highlights:

Completed transition to leading skills and training provider

- Work programme ended March 2019
- Non work programme revenue 73% of 2018 total

Apprenticeship Levy

- Worked with >7,000 people in 2018
- Key wins with Lloyds, William Hill, Royal Mail, Boden
- Strong pipeline developed

New wins

- ESFA - £35m over 27 months, up from £14m
- PEF - £105m TCV over 4 years – More than doubling our existing business

ESF – European Social Fund
PEF – Prison Education Framework

Transition to Skills and Training complete

PeoplePlus

Work Programme

- 9 contract package areas across England as Prime Provider
- Contract end March 2019

49% → 27% → 2%
2017 2018 2019

Employability

- Local and devolved government contracts including key contract in Scotland
- Business start-up services including New Enterprise Allowance

9% → 10% → 16%
2017 2018 2019

Justice Services

- Prison Education – Market share increased to 25% from 10%
- Community Rehabilitation Company

20% → 23% → 31%
2017 2018 2019

Skills Services

- Adult Education – Prime Provider to Skills Funding Agency, Welsh Government and Skills Development Scotland
- Apprenticeships – Levy and non-Levy provision

13% → 31% → 41%
2017 2018 2019

Communities

- Adult Social Care Services – Carers Hubs and Independent Living Services
- Innovative Youth Employment Services

5% → 5% → 7%
2017 2018 2019

Northern Ireland

- Skills and Employability led business with multiple contracts, including apprenticeship delivery

4 % → 4% → 3%
2017 2018 2019

Percentage represents full year proportion of revenue for each sector for 2017, 2018 and 2019

Work Programme finalised
No further exit costs

PeoplePlus

Contract variation in H2 2018

- Unilateral contract variation by Government significantly reduced economics of operating and claiming “Sustainment Outcomes” previously available until March 2021
- Consequent early exit costs of property and people, booked as “exceptional cost” in 2018. No further exit costs

Work Programme finalised

- Last remaining customers were on programme until 31 March 2019
- Last remaining “Job Outcomes” revenue claimable until 30 Sep 2019

Outstanding credentials. PeoplePlus…

- Will exit the Work Programme as the long term top performing operator
- Helped c.460,000 of the UK’s long term unemployed back into sustainable work

PeoplePlus transformation is complete

- Now the UK’s market leading Skills and Training provider
- Simplified operating model with no on-going Work Programme overhang

Total business transformation

PeoplePlus

Jan 2018

Customer Diversification

- Work Programme >390 colleagues engaged
- Central Government funding dominant
- No private sector client propositions beyond apprenticeships
- Bid Engine in need of transformation

Scale and Origination

- Key strategic opportunities identified in prison education and adult education
- Sub scale Apprenticeship division and <20 private sector clients
- Little technology in service delivery
- Bid win rate 1 in 3

Today

Customer Diversification

- Work Programme closed with <10 colleagues now engaged in contract completion activities
- Circa £150m in new contracts announced in Q1 and win rate at 1 in 2
- 35 new contracts live on 1st April
- Leading levy apprenticeship provider

Scale and Origination

- Largest provider of skills support for the unemployed in adult education with 47% market share
- Private Sector Market propositions live in health and wellbeing and learning and development – with strong pipeline of integrated offers
- Overall private sector client base now in excess of 150
- AI solution deployed in key markets – market leading in UK

2020 - 2022

Customer Diversification

- Contract base more diversified across central, local and devolved government – with multiple run off dates
- Strong contract flows with over 60% of revenues already secured (excluding apprenticeships)

Scale and Origination

- Apprenticeship pipeline building with a number of strategic client opportunities – with provider competition reducing
- Bid win rate maintaining at 1 in 2 with strong pipeline across private and public sector
- Digital Learning platform growth and further development of AI solutions

Key wins support future growth

PeoplePlus

- **Prison Education Framework**
  - Contract value of £104.6 million over a four-year period
  - Operate in 22 prisons across the UK, up from 10
  - Provision across East of England, East and North Midlands
  - Staffline will have a c.25% share, up from 10%
  - Largest private provider of prison education

- **ESFA**
  - Won £35m contract value over 27 month period
  - Up from existing £14m
  - Working in 10 Local Enterprise Partnerships
  - Now the largest supplier of Skills Support for the Unemployed (SSU)

With further opportunities in the pipeline

PeoplePlus

Market Opportunity

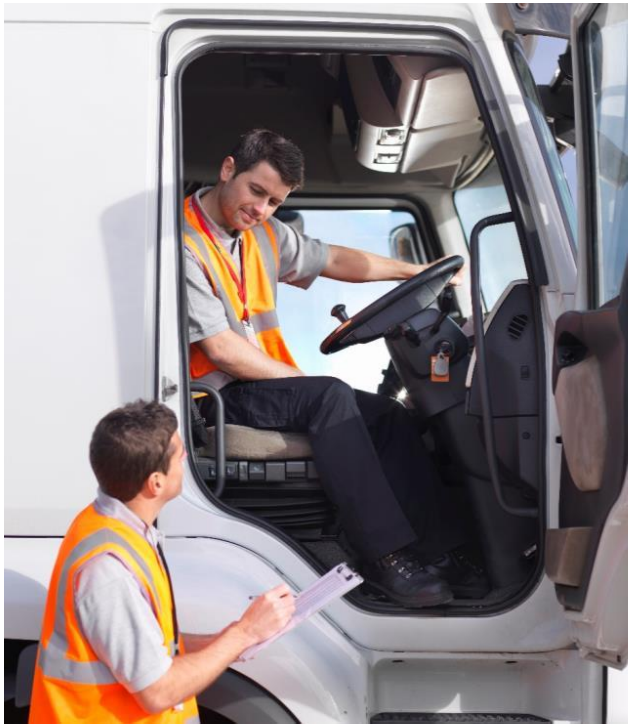
Pipeline - 2019

Sector	TCV (m)
Skills	14
Employability	88
Justice	35
Communities	25
Enterprise	8
Total	**170**

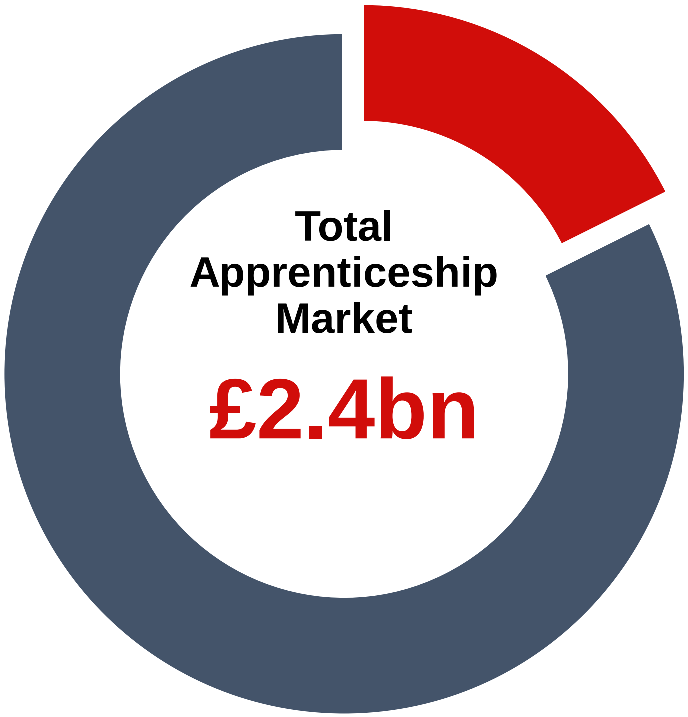
Pipeline - 2020

Sector	TCV (m)
Skills	60
Employability	37
Justice	535
Communities	50
Enterprise	7
Total	**689**

- **Staffline bid win rate 1 in 2**
- **Average contract length of 3 years**



Apprenticeship market is a significant opportunity



c.22%
drawn down by the end of January 2019

£3bn
Market growth by 2022

Outlook

2019 Priorities

Recruitment

- **Realise benefits of differentiation strategy – worker experience and digital**
- **Optimise existing business**
  - Improve commercial terms
  - Maximise cash conversion
  - Improve return on working capital invested

PeoplePlus

- **Maintain new business win momentum**
- **Continue contract diversification strategy**
- **Continue shift away from reliance on Central Government funding**

Group

1. **Optimise existing business**
2. **Return to strong cash conversion / improve ROI**
3. **De-lever balance sheet**

Enabling the future of work™

Appendices

Significant Shareholders
(Top 20: represents 83.4% of shares in issue)

Top 20 shareholders at 31 December 2018	
Octopus Investments	17.5%
Cat Rock Capital Management	12.7%
Invesco inc Perpetual Asset Management	8.5%
Standard Life Aberdeen	7.9%
Legal & General Investment Management	4.7%
Gresham House (was Living Bridge holding)	4.4%
Staffline Group Plc Employee Benefit Trust	4.1%
GlobeFlex Capital	2.8%
River & Mercantile Asset Management	2.8%
Bank of America Merrill Lynch	2.3%
Coutts & Co	2.1%
M&G Investment Management	2.0%
JP Morgan Asset Management	2.0%
Alken Asset Management	1.8%
Andy Hogarth	1.8%
Otus Capital Management	1.5%
Tilney Group	1.4%
Berenberg Bank	1.2%
Smith & Williamson Investment Management	1.1%
Hargreaves Lansdown Asset Management	0.9%

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