22 June 2021

**STAFFLINE GROUP PLC**
(“Staffline”, the “Company” or the “Group”)

**AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

Staffline Group plc, the recruitment and training group, announces its audited Preliminary results for the year ended 31 December 2020.

**Refinancing and Current Trading**

- On 10 June 2021, the Group completed a placing, subscription and open offer, raising gross proceeds of £48.4 million. Additionally, the Group’s debt facilities were refinanced. The combined refinancing has transformed Staffline’s balance sheet
- As previously announced, Q1 2021 trading was ahead of management expectations providing increased confidence in the full year
- The employment market experienced a structural change in 2020, with increasing levels of unemployment and demand shifting in favour of essential retail, online and e-commerce sectors, presenting a number of growth opportunities for Staffline
- Three-year contract extension agreed with Tesco in 2020 and a number of contracts recently secured by PeoplePlus with prime suppliers to deliver the Restart programme
- The Group has been right-sized and is now re-focused on its core sectors, which the Board believes Staffline can leverage to continue sustainable growth

**2020 Financial Highlights[1]**

- Revenue of £927.6m (2019: restated £1,063.0m)
- Underlying[2] operating profit increased (66%) to £4.8m (2019: restated £2.9m)
- Reported operating loss of £(44.3)m (2019: restated £(36.2)m)
- Underlying EBITDA (pre-IFRS 16)[3] of £9.3m (2019: restated £7.0m)
- Reported loss before tax of £(51.6)m (2019: restated £(44.4)m)
- Net borrowings[4] reduced by £50.7m to £8.8m as at 31 December 2020 (2019: £59.5m) on a pre-IFRS 16 basis
- Net borrowings were £14.3m as at 31 December 2020 (2019: £67.9m) on an IFRS 16 basis
- The Group benefitted from the HMRC VAT measures that were introduced in March 2020, enabling deferral of its payments for the period March to June 2020, providing a short-term liquidity improvement

**Operational Highlights**

- The health, safety and wellbeing of our employees, customers and candidates has been our number one priority during the pandemic
- The Group responded well to the unprecedented surge in demand for temporary staff in the essential food and other online sectors
- Sustained demand throughout 2020 in the logistics and driving segments as a result of the transition to online retail
- Conversely, demand from other sectors such as high street retail, automotive and manufacturing was diminished throughout the year
- Despite the closure of skills centres in line with the Government’s Covid rules, PeoplePlus was able to operate the majority of its services by delivering a mix of services including online and digital learning, but most funding support has been on a cost only basis
- The Group experienced a strong Christmas peak with high demand from the Group’s food retail customers
- Year-end Group headcount decreased by 18.2% to 2,202 (2019: 2,692) as a result of transformation and restructuring actions implemented during the year to right-size the Group for the future
- Disposed of the loss-making Apprenticeships business in PeoplePlus

**Governance**

- Comprehensive restructuring programme implemented across 2020 improving reporting and governance across the Group, as well as strengthening the balance sheet, with all three divisions returning to full underlying operating profit in H2
- Significantly strengthened the Board, with the appointments of Ian Lawson, Chairman; Albert Ellis, Chief Executive Officer; Daniel Quint, Chief Financial Officer, and Ian Starkey and Catherine Lynch, Non-Executive Directors
- Designed and implemented leaner organisational structures, streamlined divisional reporting and focused the Group on its core activities.

**Albert Ellis, Chief Executive Officer, commented:**

"The Group has successfully come through one of the most challenging periods in its existence. Faced with a global pandemic, our employee well-being and safety was our number one priority, and the Group would not have been able to service such high levels of demand without the support of its permanent and temporary workforce across the UK and Ireland."

"Group net fee income was down 12.7% for the full year but the impact of the transformation and cost reduction actions resulted in a significant improvement in underlying operating profit in the second half compared to the first, enabling the Group to deliver full-year profits ahead of expectations."

"Trading in the first quarter of 2021 was encouraging with operating profit ahead of expectations. Whilst market conditions remain volatile in those sectors which are just opening up following the lockdown, the successful vaccination programme is providing a springboard for a strong recovery in the second half of 2021. This, coupled with the Group's successful equity and debt refinancing in June 2021, that was supported by both new and existing investors, underpins our optimism for the second half of the current financial year and we remain on track to meet current market expectations for the full year."

[1] *The results shown above relate to continuing operations. The 2019 results are restated to exclude the results of the Apprenticeships business sold in December 2020 and the Poland subsidiaries, which are held for sale.*

[2]*Underlying operating profit before goodwill impairment, amortisation of intangible assets arising on business combinations, reorganisation costs and other non-underlying costs.*

[3] *Earnings before interest, taxation, depreciation and amortisation on a pre-IFRS 16 basis*

[4] *Net debt excludes transaction costs of £0.3m (2019: nil).*


| | |
|---|---|
| **Staffline Group plc**<br>www.stafflinegroupplc.co.uk<br>Albert Ellis, Chief Executive Officer<br>Daniel Quint, Chief Financial Officer | via Vigo Consulting |
| **Liberum** Nominated Adviser and Broker<br>www.liberum.com<br>Richard Lindley / William Hall | 020 3100 2222 |
| **Vigo Consulting** Financial PR<br>www.vigoconsulting.com<br>Jeremy Garcia / Antonia Pollock | 020 7390 0230<br>staffline@vigoconsulting.com |

**Forward looking statements**
Certain statements in this announcement are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward looking statements contained in this announcement regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Readers should not place undue reliance on forward looking statements, which apply only as of the date of this announcement.

**Important notice**
This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase 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. Past performance cannot be relied upon as a guide to future performance.

**Market Abuse Regulation**
The person who arranged for the release of this announcement on behalf of Staffline Group plc was Ian Lawson, Non-Executive Chairman.

## About Staffline – *Recruitment, Training and Support*

Enabling the Future of Work™
Staffline is the UK's market leading Recruitment and Training group. It has three divisions:

### Recruitment GB
Staffline is a leading provider of flexible blue-collar workers, supplying c.37,000 staff per day on average to around 450 client sites, across a wide range of industries including agriculture, supermarkets, drinks, driving, food processing, logistics and manufacturing.

### Recruitment Ireland
The Recruitment Ireland business is a leading end to end solutions provider operating across twenty industries, ten branch locations, fifteen onsite customer locations, supplying c.5,000 staff per day on average, and offering RPO, MSP, temporary and permanent solutions across the island of Ireland.

### PeoplePlus Division
Staffline is the leading adult skills and training provider in the UK, delivering adult education, prison education and skills-based employability programmes across the country.

## Chairman’s Statement

### Introduction

Our focus for 2020 was to restructure the business and ultimately restore resilience and stability to the Group. The many initiatives implemented during the year included strengthening the balance sheet through a refinancing in June 2020, and a focus on cash, alongside improving the Group’s operational, financial and governance processes, in order to create a sustainable business for the future.

In the year ended 31 December 2020, the Group generated revenues of £927.6m and an underlying profit before tax of £0.7m.

Strengthening our balance sheet and improving cash generation were high priorities during the year. At the year-end, the Group had pre-IFRS 16 net debt of £8.8m, with average pre-IFRS 16 net debt throughout the year of £38.1m. The Group’s net debt position benefited by £46.5m as a result of the Government’s VAT deferral scheme.

The global Covid-19 pandemic, which dominated much of 2020, impacted our overall performance to various degrees during the year. This resulted in some areas of the business benefitting markedly, such as temporary recruitment for the food sector, which experienced a significant uptick in demand in Q2 2020. I was extremely proud of the reaction and contribution of both our people and the business to the nationwide #FeedTheNation campaign. This initiative allowed the Group to utilise its significant food retail experience ensuring our customers were sufficiently staffed and stocked during the first national lockdown. In addition, our driving business benefitted from the e-commerce surge, as consumers transitioned to online shopping during the closure of non-essential retail.

By contrast, other sectors within the recruitment businesses, such as manufacturing, high street retail and automotive, were adversely affected during the year with the temporary nationwide shutdown of some of these industries. In addition, PeoplePlus experienced a loss of classroom delivery in the year, however, well-developed business continuity and resilience plans, together with digital operating models, meant that the business could continue to operate the majority of its services.

Where appropriate, we successfully transitioned to working remotely in March 2020 and did so whilst achieving minimal business disruption. The Group also utilised the Government’s furlough scheme with certain of its permanent and temporary employees, and has benefitted from the deferral of VAT, as noted above.

The employment market underwent some structural changes in 2020 with unemployment rising significantly. This presents potential opportunities for Staffline, both in recruitment, as enterprises look to appoint temporary workers as opposed to permanent staff, and for PeoplePlus, as skills and training becomes higher priority in a bid to get more individuals back into employment.

Staffline entered 2021 with a business that has much stronger foundations from which to deliver a return to growth. This is already evident in our performance in Q1 2021, which was ahead of management expectations, as we benefit from the structural changes in our business that were implemented last year.

**Board composition**

The Group's Board of Directors was transformed during 2020 and our corporate governance processes strengthened significantly. I firmly believe we now have a strong team in place, both at board and senior management level, to lead our business through the next stage of its development.

I was delighted Albert Ellis took up the role of Group Chief Executive in October 2020 having joined Staffline in March 2020 as a Non-Executive Director. Albert has considerable experience within the recruitment sector, and we are already benefitting from his leadership. In addition, Daniel Quint, who joined Staffline as interim CFO in December 2019, became permanent from 1 February 2021. Daniel has been involved in a number of important workstreams since joining the Group and I am very pleased he has taken up the role on a permanent basis.

Furthermore, we appointed two additional non-executive directors who joined the Board on 1 January 2021. Ian Starkey, who has significant audit and financial management experience is now Chair of our Audit Committee, and Catherine Lynch, who is a highly experienced HR director, is now Chair of our Remuneration Committee.

**Annual General Meeting**

Notice of the 2021 Annual General Meeting of Staffline Group PLC ("AGM") will be published at the same time as the 2020 Annual report. The AGM will be held at the offices of Liberum Capital Limited at Ropemaker Place, Level 12, 25 Ropemaker Street, London, EC2Y 9LY on 28 July 2021 at 9:00 a.m. However, in light of the Covid-19 pandemic and HM Government's measures to restrict travel and public gatherings in force, shareholders (other than the two necessary or to be present in person or by proxy to form a quorum) are not allowed to attend the meeting in person. The Q&A that would have taken place at the AGM will instead be made available on the investors page of the Staffline Group PLC's website.

**Summary and Outlook**

The health, safety and wellbeing of all of our employees, suppliers and customers remained our top priority throughout 2020 and into 2021. Our people are central to our success, and on behalf of the Board I would like to thank every one of our employees for their exceptional dedication and contribution, during what has been a particularly challenging time for every individual.

Despite the operational and broader macroeconomic challenges across 2020, Staffline delivered a robust performance in the year. Trading across the first three months of 2021 was strong and underpins our confidence in meeting expectations for the full year. Having now strengthened our financial position through the recent fundraising and debt refinancing, we truly believe we have a platform from which to deliver meaningful growth as we are already seeing a stronger pipeline developing across all of our divisions.

The passion and commitment throughout Staffline is very evident. We have a collective understanding of the significant opportunity that exists for our business, and myself and the Board believe we can capitalise on these strengths to deliver value for our stakeholders.

Ian Lawson
Chairman

## Chief Executive Officer's Review

### Introduction

I joined the Board in March 2020 as Non-Executive Director, at a time when the Group was facing significant internal and external challenges. Having seen the Staffline Group's strengths and potential opportunities, I was pleased to accept the position of Chief Executive Officer in October 2020.

Clearly, Staffline's 2020 performance was impacted by the global Covid-19 pandemic, driven by the associated government restrictions, and the social and business trends that subsequently emerged. Our first priority throughout, has been the safety and wellbeing of our workforce. Those able to, were seamlessly transitioned to a home working environment, and those who remained active across our customers' premises were provided with support, as Covid-secure procedures were implemented. Staffline's response to the pandemic across the Group has been outstanding and this has only been made possible by the tremendous collective effort of all our people, for which I am extremely grateful. My thoughts also go out to those who have suffered through Covid-19, either directly or by the loss of friends or family.

In terms of trading, H1 2020 was significantly impacted by the pandemic with a sharp decline in demand across our three divisions – Recruitment GB, Recruitment Ireland and PeoplePlus. However, certain initiatives implemented in the first half to improve the Group's operational, financial, governance and board profile, resulted in an improvement in revenues, underlying operating profit, working capital and net debt in the second half of 2020.

Overall, the Group delivered a creditable performance in 2020, generating revenues of £927.6m and underlying operating profit[1] of £4.8m, which, as announced in January 2021, was ahead of management's expectations. In addition, as at 31 December 2020, the Group had pre-IFRS 16 net debt[2] of £8.8m (2019: £59.5m), with average pre-IFRS 16 net debt throughout the year of c. £38.1m (2019: c. £85.2m), which was a significant improvement against expectations. This was driven by the £46.5m benefit from the Government's VAT deferral scheme and management actions to reduce outstanding debtor days, generating c. £10.0m of cash.

In temporary recruitment, as previously highlighted, the Group experienced an increase in levels of demand in March 2020 during the first national lockdown across the food, driving, logistics and e-commerce sectors, with this surge in demand normalising later in the year. Certain other sectors such as manufacturing, high street retail and the automotive industries were more challenging with demand across the travel, leisure and aerospace industries continuing to be supressed. Retail and hospitality were volatile throughout the year, with easing of restrictions in the summer benefitting these industries, followed by regional lockdowns in the second half of the year causing further disruption. In addition, the Group's permanent recruitment business declined sharply in H1 2020 but saw some recovery in the latter part of the year.

Despite the national lockdown in November and restrictions in December, the Group still experienced a strong Christmas trading peak, with significant demand from the Group's food retail customers. Furthermore, e-commerce and logistics experienced a very strong trading period as a result of the accelerated nationwide behavioural shift to online retail.

The PeoplePlus division was also adversely impacted by the pandemic, with training programmes disrupted or delayed and the majority of services transitioned to predominantly digital delivery with funding support largely on a cost only basis. As part of a broader restructuring of the Group, PeoplePlus successfully completed the disposal of its Apprenticeships business in December 2020, enabling the division to re-focus on its core employability and adult skills capabilities. I am pleased to report that PeoplePlus continued to recover during the year and reported an underlying operating profit in H2 2020 compared to a loss in the first half.

As the pandemic spread, we took decisions to implement new and safer ways of working. This ensured that we were able to continue to deliver our services, navigating the new macroeconomic landscape whilst adjusting the working environment – in many cases in consultation with our customers – to ensure our employees, both permanent and temporary, remained safe at work.

We have entered 2021 in a much stronger position than a year earlier as a result of the significant changes we have implemented across our business. Despite the ongoing Covid-19 pandemic, and as announced in our trading update in April 2021, trading in the first quarter of 2021 was relatively strong, and coupled with our recent refinancing, we enter the second half of 2021 with a sense of cautious optimism.

**Restructuring**

As highlighted in the Chairman's statement, the Group implemented a comprehensive restructuring programme during 2020. A key priority of this was to improve the quality of our reporting and governance across the Group. This, alongside a strengthening of our Board, is coming to fruition, as we seek to future-proof Staffline for sustainable long-term growth. Alongside these changes, the Group refinanced its bank facilities in June 2020, ensuring the business had sufficient working capital to support our day-to-day activities. The combined debt and equity refinancing in June 2021 completed the exercise to strengthen the balance sheet.

Elsewhere, we have changed our organisational structure, streamlining divisional reporting and ensuring that we are focused on our core activities. In addition, we have sought to right-size our business, which has included rationalising both our people costs and property estate, the disposal of a non-core business, alongside seeking supply chain synergies by aligning our new group structure with our market leading IT capabilities and solutions. These changes delivered c.£15.0m of annualised cost savings.

One of the most exciting strategic transformations has been our shift in focus to core complementary services packaged together in a portfolio, with professional recruitment and permanent placements a key driver of margin improvement and cash generation.

As a management team, we believe that Staffline is now in a much more resilient position and our renewed focus on our core capabilities will, in time, improve customer retention and ultimately lead to greater levels of cross-selling opportunities across the Group.

**Responsible business**

Staffline is a purpose-led organisation with a long successful track record across both recruitment and training activities. With sustainable employment one of the most desired objectives across society, Staffline provides the solutions to not only connect skilled people to companies, but also to help individuals develop their skills and careers. Our purpose is to bring together skilled people to build better organisations for the future.

We impact individuals' lives in a number of ways, including providing temporary employment to c. 40,000 blue collar workers a day, enabling them to work flexibly, and easily change their career focus. We had particular success through our #FeedTheNation campaign in March 2020, providing employment in the food production and logistics sectors for over 25,000 displaced workers. We work to help people transform their lives, get jobs and keep jobs, and develop their careers.

A number of the services that Staffline provides are specifically to assist those in society's most difficult situations. We provide c. 20,000 prisoner learners with not only the skills to find work, but also life skills such as parenting advice. In addition, our WayOutTV solution is watched by a further 50,000 prisoner learners across the UK. We are also one of the largest providers of independent living in the UK, helping vulnerable individuals' stay in their homes for longer.

We have also created a social recruitment model which connects employers with individuals who might otherwise struggle to find work, with corporates such as Amazon and Tesco utilising this model. In addition, we work closely with individuals who want to exit long-term employment and set up their own business giving them the advice and skills necessary to do so.

Our goal is to truly embed Environmental, Social and Governance (“ESG”) targets across our business and we have been building out our strategy in this regard. By focusing on these three key areas we believe we can have the most impact across our key stakeholders and are currently introducing new targets to increase accountability across the business. We are committed to helping to build a sustainable future for society, and the unprecedented events of this year have strengthened our resolve. With the anticipated rise in unemployment anticipated in the coming months as a result of the pandemic, we believe Staffline’s purpose will become more important than ever before.

**Operational review**

*Recruitment GB*

The Recruitment GB division was set up well to handle the challenges presented by the Covid-19 pandemic. Over 60% of the division supports the food and food logistics sector, and growth in demand in this sector increased by 10% versus 2019. As a result of the accelerated investment in the division’s digital technology and intelligent automation, such as the Recruiter Chatbot, “Flin”, integrated with the Group’s candidate database management system, Staffline was well-placed to ensure that it could deliver fulfilment levels against challenging timescales. We were also able to leverage the benefits of the wider Group as we jointly developed the #FeedTheNation programme.

As lockdowns eased during the year, Recruitment GB’s Recruitment Procurement Outsourcing (“RPO”) division, Datum, supported house builders and construction clients. Additionally, Recruitment GB’s professional permanent recruitment businesses, Omega, in England and Wales and Brightwork, in Scotland, helped to source engineering and technical specialists. The business successfully supported its essential food, retail and logistics customers as the country shifted ever more to online delivery models.

Following a strategic review, the business gave notice to exit low margin contracts, the most significant of which was 2 Sisters Food Group. New business and organic growth was secured in exciting sectors such as digital and online food delivery businesses, with Ocado and Hello Fresh being just two examples. A number of Recruitment GB’s core customers also agreed extended contract terms in 2021 as a result of the successful support during a very challenging 2020.

*Recruitment Ireland*

After a positive Q1 2020, during which Recruitment Ireland delivered underlying operating profit of £0.7m on revenue of £33m, management acted quickly to counteract the effects of the Covid-19 outbreak on its core markets. Decisive action was taken in respect of overheads, enabling this division to remain profitable for the remaining nine months of the year, despite a fall in demand and the severe and extended lockdown implemented in the Republic of Ireland. Pleasingly, Recruitment Ireland maintained margins of 8.7% for the year, despite significant industry-wide challenges in certain sectors such as non-food manufacturing and a fall in permanent recruitment throughout the summer.

The division maintained its position as market leader in Northern Ireland, with over 21% market share, and is now the second largest recruitment agency on the island of Ireland. Recruitment Ireland had new business success during 2020, including adding customers Finnebrogue, the artisan food producer, and Liberty IT, the technology business. In addition, the business supplied Tesco with contingent retail staff, secured additional business with the Northern Ireland Civil Service and was awarded a place on the Nightingale Framework to support the Covid-19 response.

*PeoplePlus*

PeoplePlus adapted quickly to the impact of the Covid-19 pandemic, deploying its business continuity plans successfully with all services maintained. Customers and learners were supported by market leading digital services that had been developed prior to the pandemic and were further enhanced during this period. In a monitoring visit of PeoplePlus' educational services in England in late 2020, Ofsted noted the support this approach had provided to learners. The impact of lost classroom capacity in both adult education and prison services was, however, significant, partly recovering in the summer of 2020, before reducing again as further local and national lockdowns occurred.

The fixed cost nature of the business model resulted in a loss in the first half of the year. With much reduced capacity and declining revenues, the leadership team implemented a transformation of the business which included focusing on core services and reducing the overhead base significantly, whilst changing the delivery model to a mix of online digital as well as traditional in-person learning.

This transformation coincided with the emergence of rising unemployment as a defining factor in the economy and led to a strategic refocus of the PeoplePlus division. PeoplePlus disposed of the majority of its Apprenticeship business in December 2020 to support this strategic pivot. The Chancellor's "Plan for Jobs" created a significant pipeline of new public sector funding in these core markets, including investments in traineeships, a long-term unemployed programme, "Restart", and further adult education budget.

The Group announced on 2 June 2021 that PeoplePlus has secured three significant contracts with two of the UK's leading outsourcing providers within the Restart programme.

Looking ahead, PeoplePlus, with its leading market positions and reputation for high performance, is well positioned across a number of opportunities. Therefore, bid disciplines will remain an important part of PeoplePlus' sustainable growth strategy.

**The recruitment landscape and our offering**

Given Staffline's significant market position in blue collar recruitment and the strong reputation we have with our blue-chip client base for delivery and fulfilment, I firmly believe we are ideally placed to benefit from the full recovery of the UK and Ireland economies.

The UK is still considered to be the world's third largest recruitment market, accounting for c. 10% of the global $498 billion in global staffing revenues, with the UK contributing c. $51.9 billion and the Republic of Ireland, $2.5 billion[3] pre-pandemic. Despite the ongoing uncertainty and economic impact of Covid-19, the UK recruitment market has proven overall to be highly resilient in the last twelve months. The recruitment market has also historically proven to return to early growth quite rapidly post a crisis or recession versus other sectors, and our focus has been to ensure that we are optimally placed to capitalise on this potential increase in the second half of 2021 following the vaccine rollout in the UK.

Prior to the pandemic, we operated within a tight labour market across wide and diverse sectors. These historic dynamics have now shifted into essential sectors, such as food and distribution, online retail and e-commerce. As a result, we have seen a significant increase in online activity and accelerated demand for logistics, warehouse and driving. This shift in demand, ultimately driven by the pandemic, appears to have permanently changed consumer behaviour, illustrated by the expansion of the networks and footprints of Hello Fresh and Ocado, which are just two of the Group's customers. The pandemic has also negatively impacted travel, aerospace, hospitality (particularly in city centres and "on-the-go food"), high street retail and automotive and manufacturing.

Whilst the global uncertainty relating to the pandemic continues, we are pleased to see the global roll-out of vaccination programmes worldwide. However, whilst we have adapted at pace to new levels of demand, so long as the impacts on the macroeconomic environment persist, we expect to see some continued volatility in our markets. There has also been a seismic shift in working practices as a result of Covid-19 and we believe many businesses will be adopting these for the long term.

Given our market position, we are confident that we are well-placed to capitalise on the new world of work, and so are investing in key areas that we believe will drive future growth. We remain committed to investing in digital technology to improve our customer and candidate experience, providing assurance and transparency, and with the use of our market leading data, also providing insights and identifying labour trends, which will further embed our valued customer relationships.

**Strategy**

As already noted, I took up the role of CEO in October 2020, and alongside the executive management team, we have focused on creating a sustainable business, with our strategy underpinned by the following key priorities, as outlined in our capital markets presentation in November 2020, which are:

1) **Operational excellence** – focusing on simplicity, leadership, strong processes, organisational design and implementing performance measurement through KPIs

2) **Governance** – developing a dynamic and skilled Board, aligning Group polices, strengthening the finance and internal audit function and ensuring a robust governance framework

3) **Cost base** – right-sizing the business, including identifying synergies in shared services, property utilisation and supply chain and scale economies, to underpin our competitive position in the market

4) **Digital and technology** – bringing together the IT estate under one leadership team, the appointment of a Group CIO and driving forward intelligent automation and a strong digital platform, whilst strengthening the Group's business continuity infrastructure

5) **Clients and branding** – aligning the Group's brands and brand values and upgrading existing client relationships by investing in relationships and building key strategic partnerships. Driving organic sales as a key priority, whilst leveraging the significant opportunities to increase cross-selling across the Group

6) **Talent** – ensuring market leading attraction, retention and compensation policies are in place, introducing performance and productivity measurements combined with competitive incentive and reward schemes, both short and long term

**Stakeholders**

Due to our position and the breadth of our business coverage in terms of sectors, we have a wide range of stakeholders from governments, consumers, through to our employees, business partners, shareholders, the community and environment. These relationships are all critical to us as we deliver against our Purpose, Vision and Values – to build and develop the most reliable integrated workforce in the country and be the leading creator of opportunities, jobs and new ideas in the employability, skills and justice sectors. We work hard to engage with all our stakeholders and to create a balance of long-term value for each through our strategy. An overview of how the Board has fulfilled its duty, as set out in Section 172 of the Companies Act 2006, to promote our long-term success, while considering the interests of our stakeholders and our impact on the community and environment, is explained on pages 28 to 32 of the Group's Annual Report.

**Outlook**

Our initial view, which was taken in spring 2020, was that the pandemic would create sustained and significant volatility in staffing demand, creating new growth sectors whilst impacting others. This has proven to be correct, and we anticipate some uncertainty ahead in several of our markets. Despite this, the Group delivered a robust performance in 2020 and has undergone some fundamental changes which have positioned it for future growth as we benefit from the resurgence in our core markets. Our new strategy so far has proven successful, and we will continue to drive the Group forward in the coming period towards our long-term ambitions.

Results for the year so far have been strong and all three divisions are expected to achieve market expectations for the full year, with a key assumption being that economic growth returns in the second half of the year following the easing of lockdown, and the successful rollout of the vaccination programme. In addition, our recent equity fundraise of £48.4 million of gross proceeds, and debt refinancing, provides us with a renewed platform to capitalise on the opportunities that exist for our businesses.

Over the coming year, we will continue to invest in our people, data, technology, and our go-to market strategy, leveraging the power of our platform to reduce the cost of customer and candidate acquisition. Our current objective remains to continue winning market share, working towards our ultimate goal of becoming the number one talent provider across our chosen markets.

Once again, I would like to thank both our temporary and permanent employees for their significant contribution, in what was a challenging year for the Group.

**Albert Ellis**
Chief Executive Officer

21 June 2021

*[1] Underlying operating profit before goodwill impairment, amortisation of intangible assets arising on business combinations, reorganisation costs and other non-underlying costs.*
*[2] Net debt excludes transaction costs of £0.3m (2019: nil)*
*[3] Staffing Industry Analysts 2019 report*

## Financial Review

### Introduction

During what was an extremely challenging year nationwide, the Group encountered mixed market demands across its divisions. Overall, total revenue for the year of £927.6m (2019: restated £1,063.0m) was lower than the previous year by 12.7%.

The Group comprises three divisions, namely, Recruitment GB, flexible blue-collar recruitment; Recruitment Ireland, generalist recruitment; and PeoplePlus, adult skills and training provision.

**Underlying divisional performance and key performance indicators – continuing operations**

| | **Recruitment GB 2020 £m** | **Recruitment Ireland 2020 £m** | **PeoplePlus 2020 £m** | **Group Costs 2020 £m** | **Total Group 2020 £m** | Recruitment GB Restated 2019 £m | Recruitment Ireland 2019 £m | PeoplePlus Restated 2019 £m | Group Costs 2019 £m | Total Group Restated 2019 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | **732.1** | **120.5** | **75.0** | **–** | **927.6** | 840.0 | 147.7 | 75.3 | – | 1,063.0 |
| *Year-on-year revenue (decline)/increase* | ***(12.8)%*** | ***(18.4)%*** | ***(0.4)%*** | **–** | ***(12.7)%*** | *(7.5)%* | *40.3%* | *(30.0)%* | – | *(5.2)%* |
| Gross profit | **46.2** | **10.5** | **17.9** | **–** | **74.6** | 56.6 | 15.6 | 15.3 | – | 87.5 |
| *Gross profit as a % of revenue* | ***6.3%*** | ***8.7%*** | ***23.9%*** | **–** | ***8.0%*** | *6.7%* | *10.6%* | *20.3%* | – | *8.2%* |
| Underlying operating profit/(loss) | **4.2** | **1.6** | **1.6** | **(2.6)** | **4.8** | 4.6 | 4.3 | (3.5) | (2.5) | 2.9 |
| *Underlying operating profit as a % of revenue* | ***0.6%*** | ***1.3%*** | ***2.1%*** | **–** | ***0.5%*** | *0.5%* | *2.9%* | *(4.6)%* | – | *0.3%* |
| *Underlying operating profit as a % of gross profit* | ***9.1%*** | ***15.2%*** | ***8.9%*** | **–** | ***6.4%*** | *8.1%* | *27.6%* | *(22.9)%* | – | *3.3%* |
| Pre-IFRS 16 net debt excluding unamortised transaction costs | **–** | **–** | **–** | **–** | **8.8** | – | – | – | – | 59.5 |
| Post-IFRS 16 net debt excluding unamortised transaction costs | **–** | **–** | **–** | **–** | **14.3** | – | – | – | – | 67.9 |
| Hours worked by temporary workers | **58.4m** | **6.7m** | **–** | **–** | **65.1m** | 68.6m | 9.4m | – | – | 78.0m |

*Comparative results have been restated to exclude the activities that were discontinued in 2020*

Revenues in our Recruitment GB division declined by £(107.9)m or (12.8)%. Demand from customers varied significantly by sector depending on the effect of the Covid-19 pandemic on their businesses. In particular, demand from supermarket, logistics and online retail customers remained strong. The initial lockdown in the spring caused severe disruption to manufacturing and non-essential retail businesses from which they have not yet fully recovered. The division typically experiences a pre-Christmas peak in demand during Q4 and did so in 2020, particularly from the e-commerce and logistics sectors. Despite the effect of the various forms of lockdown across the country, Q4 2020 hours worked were 16.0 million compared to 17.4 million in 2019, only an (8.0)% reduction. Revenue generated from temporary recruitment accounted for over 99% of total revenue. Gross profit generated from temporary recruitment accounted for 97% of the total, with the remaining 3% of gross profit generated from permanent recruitment.

Revenues in our Recruitment Ireland division reduced by £(27.2)m or (18.4)% mainly due to the effects of the pandemic and the uncertainty related to Brexit. Revenue generated from temporary recruitment accounted for 99% of total revenue compared to 1% from permanent recruitment. Gross profit generated from temporary recruitment accounted for 91% of the total, with the remaining 9% of gross profit generated from permanent recruitment.

PeoplePlus revenues, excluding the Apprenticeships business sold during 2020, decreased by £(0.3)m. Whilst classroom training was severely curtailed, the division was quick to transition to online solutions, largely maintaining overall revenues compared to 2019.

The sales mix between the operating divisions was broadly unchanged over the year, with the recruitment businesses accounting for 92% of 2020 revenue (2019: Restated 93%). The recruitment businesses contributed 76% of the Group's gross profit (2019: 83%).

Overall gross profit decreased by (14.7)% to £74.6m (2019: restated £87.5m) with overall gross profit margin slightly lower at 8.0% (2019: 8.2%), which has been influenced by the sales mix, particularly in Recruitment GB. PeoplePlus achieved a gross margin of 23.9% in 2020, which compares to 20.3% in 2019 (restated for the disposal of the Apprenticeships business), largely due to improved productivity following the restructuring programme during the year. The gross profit margin for Recruitment GB decreased to 6.3% (2019: 6.7%). This was principally due to the shift towards lower margin sectors such as food production, due to the pandemic, and also some increased costs for social distancing in the workplace. The increase in the National Minimum Wage in April 2020, from £8.21 to £8.72 per hour for over 25s, does not impact absolute gross profit but does negatively impact the gross margin percentage achieved and this dynamic will continue with increases in April each year. The gross profit margin for Recruitment Ireland reduced to 8.7% (2019: 10.6%) driven by the reduction in permanent recruitment business, which consistently achieves a gross margin of 100%.

For continuing operations (excluding the exited Apprenticeships business), reported loss before taxation was £(51.6)m in 2020 (2019: restated £(44.4)m). Notwithstanding the significant challenges faced in the year, underlying operating profit was £4.8m (2019: restated £2.9m). Total non-underlying charges on continuing activities before tax were £52.3m (2019: £42.3m), of which £45.3m were non-cash, and are described below. Finance charges were £7.3m (2019: £8.2m). This included £3.2m (2019: £3.2m) of non-underlying finance charges relating to the June 2020 refinancing of the debt facilities, also described below.

The underlying profit before tax on continuing operations for 2020 was £0.7m (2019: restated £(2.1)m). Underlying profit before taxation as a percentage of revenue was 0.1% (2019: restated (0.2)%). The reported underlying profit after tax on continuing operations for 2020 was £3.4m (2019 restated: £(1.1)m loss).

**Non-underlying administrative charges**

In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles ("GAAP") under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non-GAAP measures are not a substitute for, or superior to, any IFRS measures of performance but they have been included as a means of comparing performance year-on-year.

Non-underlying items of income or expenditure are items that are non-recurring or of a particular size or nature such that they require separate identification. Non-underlying items are included in total reported results but are excluded from underlying results. These items can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. It should be noted that whilst the amortisation of intangible assets arising on business combinations has been added back, the revenue from those acquisitions has not been eliminated.

Non-underlying charges on continuing activities before tax amounted to £52.3m in 2020 (2019: £42.3m) as shown below. They include exceptional reorganisation, rationalisation and restructuring costs in 2020 of £4.0m relating principally to a rationalisation programme across all the divisions in order to reduce the number of properties occupied and reducing administration headcount, transaction costs of £0.5m related to the Group exploring strategic options, refinancing costs totalling £3.2m, a £9.2m charge for the amortisation of intangible assets arising on business combinations, a £35.3m goodwill impairment charge, and a share-based payment charge of £0.1m.

The charge in the year for amortisation of intangible assets arising on business combinations relates principally to the following acquisitions: Vital Recruitment (charge £3.2m: asset will be fully amortised by February 2023), Milestone (£1.0m charge: asset will be fully amortised by September 2020), Passionate about People (charge £2.3m: asset will be fully amortised by October 2023), Grafton (£1.3m: asset will be fully amortised by June 2023), Brightwork (charge £0.7m: asset will be fully amortised by April 2022).

| Non-underlying charges – Continuing operations | **2020 £m** | 2019 £m |
|---|---|---|
| Reorganisation, rationalisation and restructuring costs | **4.0** | 3.7 |
| Legal investigation professional fees | **-** | 1.0 |
| NMW remediation and financial penalties | **-** | (0.7) |
| Revised audit scope and increased audit fees | **-** | 0.8 |
| Transaction costs – business acquisitions and strategic options | **0.5** | 0.9 |
| Finance costs – refinancing arrangement fees and exit fees | **3.2** | 3.2 |
| Amortisation of intangible assets arising on business combinations | **9.2** | 10.9 |
| Goodwill impairment | **35.3** | 22.3 |
| Share-based payment charges (equity and cash-settled) | **0.1** | 0.2 |
| **Total non-underlying charges before tax for continuing operations** | **52.3** | 42.3 |

**Discontinued activities**

On 1 December 2020, the Group sold its loss-making Apprenticeships training business for a nominal sum. The sale agreement required PeoplePlus to provide working capital support to the purchaser in the form of reimbursement of relevant salary costs incurred between December 2020 and March 2021, which will be repaid over twelve months commencing May 2021.

The Apprenticeships business recorded an underlying operating loss of £(2.2)m for the year (2019: £(3.6)m), before reorganisation and exit costs of £(2.5)m (2019: £nil).

In addition, the Group is in active discussions to sell its subsidiaries in Poland to the incumbent management team. Consequently, the results of the Polish activities are deemed to be discontinued and the business is held for sale. The loss for 2020 was £(0.1)m before non-underlying costs of £(0.2)m.

The results of these businesses are as follows:

| | **2020 Apprentice-ships £m** | **2020 Poland £m** | **2020 Total £m** | 2019 Apprentice-ships £m | 2019 Poland £m | 2019 Total £m |
|---|---|---|---|---|---|---|
| Revenue | **7.2** | **1.0** | **8.2** | 12.6 | 1.1 | 13.7 |
| Cost of sales | **(8.3)** | **(1.0)** | **(9.3)** | (13.6) | (1.1) | (14.7) |
| Gross profit | **(1.1)** | - | **(1.1)** | (1.0) | – | (1.0) |
| Administrative expenses | **(1.1)** | **(0.1)** | **(1.2)** | (2.6) | (0.1) | (2.7) |
| Underlying operating loss | **(2.2)** | **(0.1)** | **(2.3)** | (3.6) | (0.1) | (3.7) |
| Non-underlying costs | **(2.5)** | **(0.2)** | **(2.7)** | – | – | – |
| Operating loss | **(4.7)** | **(0.3)** | **(5.0)** | (3.6) | (0.1) | (3.7) |
| Tax credit | **0.8** | **–** | **0.8** | 0.7 | – | 0.7 |
| Loss for the period | **(3.9)** | **(0.3)** | **(4.2)** | (2.9) | (0.1) | (3.0) |

**Government support**

The global Covid-19 pandemic created unprecedented disruption to the business. Consequently, a large number of our temporary workers and a much smaller number of administrative staff were placed on furlough at times throughout the year. The total support received in the year amounted to £31.4m.

In addition, the Group took advantage of the forbearance scheme for the deferral of VAT due between March and June 2020. The total deferral agreed with HMRC under the UK scheme amounted to £42.4m after offset of a Corporation Tax refund due in relation to the financial year 2018. Repayment of the balance is due to be paid in instalments, which commenced in June 2021.

**Taxation**
The total tax credit for the year of £3.1m (2019: restated £3.4m), which amounts to 6.0% (2019: restated 7.7%) of the loss for the year, relates to the movement of deferred tax balances. The Group has no current Corporation Tax liability in respect of either the current or prior years and as a result is anticipating a refund of amounts that were paid on account. An element of losses incurred during 2018 will be set against taxed profits in previous years, which will also result in a refund. Remaining tax losses of £15.4m carried forward in all divisions have been recognised as a deferred tax asset.

The amortisation charge relating to intangible assets arising on business combinations is not deductible under UK corporation tax and is therefore added back to taxable profits. A deferred tax liability is recognised in respect of other intangible assets. This liability is reduced each year in line with the amortisation charge, giving rise to a deferred tax credit each year. No deferred tax is recognised on JSOP charges.

**Earnings per share**
Statutory basic and diluted loss per share on continuing activities were both (71.5)p (2019: both (89.6)p).

For the year the weighted average number of shares (basic) is 67,790,086 (2019: increased by 22,121,263).

Removing the non-underlying charges, and their respective taxation impacts, results in underlying basic and diluted earnings per share on continuing activities both being 5.0p (2019: restated, both (2.4)p loss).

**Improving internal controls**
The Board has continued with the implementation of enhanced control procedures and oversight and has appointed a Head of Internal Audit during the year. In addition, the Board has been further strengthened by the appointment of two Non-Executive Directors after the year-end.

**Statement of financial position, cash generation and financing**
The Group's total equity decreased by £(53.6)m (2019: £(6.7)m) over the year. This is as a result of the total comprehensive loss for the year of £(53.6)m, which included the goodwill impairment of £(35.3)m that was recognised in H1 2020 and amortisation of intangibles arising from business combinations of £(9.2)m.

The movement in net debt is shown in the table below. Movements in working capital include a decrease in trade and other receivables of £27.6m (comprising c.£17.6m due to the decline in trading volumes and c.£10.0m due to improved collection rates), and a decrease in trade and other payables and provisions of £22.8m, primarily due to a reduction in VAT liabilities due to lower trading volumes and payment timing.

Movement in net debt (excluding unamortised transaction costs)

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| **Opening net debt (pre-IFRS 16)** | **(59.5)** | (63.0) |
| Cash generated before change in working capital and share options | **3.4** | 0.6 |
| Principal repayment of lease liabilities | **(3.4)** | (3.2) |
| Change in trade and other receivables | **27.6** | 24.6 |
| Deferred VAT (net of corporation tax offset) | **42.4** | - |
| Change in trade, other payables and provisions | **(7.8)** | (23.8) |
| Taxation and interest paid, and movement in unamortised borrowing costs | **(9.0)** | (7.1) |
| Capital investment (net of disposals) | **(2.4)** | (5.1) |
| Cash flows relating to acquisitions | **(0.3)** | (7.2) |
| Net proceeds from equity issue | **-** | 38.0 |
| Payments from/(into) restricted funds for NMW | **11.8** | (12.7) |
| Settlement of NMW liabilities from restricted funds | **(11.8)** | - |
| Other | **0.2** | (0.6) |
| **Closing net debt (pre-IFRS 16)** | **(8.8)** | (59.5) |
| IFRS 16 lease liabilities | **(5.5)** | (8.4) |
| **Closing net debt (post-IFRS 16)** | **(14.3)** | (67.9) |

The table below reconciles underlying EBITDA (earnings before interest, taxation, depreciation and amortisation), on continuing operations to operating loss.

| Reconciliation of operating loss to EBITDA | 2020 £m | 2019 Restated £m |
|---|---|---|
| Operating loss | **(44.3)** | (36.2) |
| Non-underlying costs | **49.1** | 39.1 |
| **Underlying operating profit** | **4.8** | 2.9 |
| Depreciation | **7.4** | 7.3 |
| **Underlying EBITDA** | **12.2** | 10.2 |
| Lease rental payments | **(2.9)** | (3.2) |
| **Underlying EBITDA (pre-IFRS 16)** | **9.3** | 7.0 |

*Note: Underlying operating profit before goodwill impairment, amortisation of intangible assets arising on business combinations, reorganisation costs and other non-underlying costs. EBITDA represents Earnings Before Interest, Taxation, Depreciation and Amortisation.*

The Group's headroom relative to available committed banking facilities as at 31 December 2020 was £79.4m (2019: £43.7m) as set out below:

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash at bank | **24.5** | 25.0 |
| Receivables Financing Facility ("RFF") unutilised | **54.9** | - |
| Overdraft facility unutilised | **-** | 18.6 |
| Committed revolving credit facility unutilised | **-** | 0.1 |
| **Banking facility headroom** | **79.4** | 43.7 |

**Refinancing: Amendments to Credit Facilities June 2020**
Following discussions with the providers of the revolving credit facility, the Company and the lenders agreed on 26 June 2020 to a revised financing structure. In summary:

| | Previous arrangement | Revised arrangement | At 31 December 2020 |
|---|---|---|---|
| Revolving credit facility (“RCF”) | £78.2m | £30.0m | £20.0m |
| Overdraft | £25.0m | - | - |
| Receivables Finance Facility (“RFF”) (invoice discounting) – maximum | - | £73.2m | £68.2m |
| **Total Facility** | **£103.2m** | **£103.2m** | **£88.2m** |
| Expiry date | July 2022 | July 2022 | July 2022 |

The previous RCF was reduced from £95.0m to £78.2m with cancellations in July 2019 and November 2019.

The key terms of the revised facilities are below, with other terms of the RCF remaining in place:

i) Repayment and cancellation of RCF commitments by £10.0m on 31 July 2020;
ii) The RFF can initially be drawn down against the receivables of the Recruitment GB division and the Northern Ireland part of the Recruitment Ireland division;
iii) Interest on the RFF accruing at 3.50% plus Bank of England base rate;
iv) Minimum EBITDA and minimum liquidity covenants until a return to leverage and interest cover covenants in January 2022. The minimum EBITDA covenants have been calculated by reference to the Group’s downside case;
v) Restrictions on new material share, business and asset acquisitions until July 2022; and
vi) No dividends to be declared by the Company until July 2022.

An arrangement fee was paid to the lenders of £0.7m in relation to the Receivables Finance Facility.

On 8 October 2020 the limit on the RFF was reduced to £68.2m following the transfer of certain customer trade receivables to new customer financing arrangements.

The Group is also funded through a number of separate, non-recourse, customer financing arrangements whereby specific customers’ invoices are settled in advance of their normal settlement date. The balance funded under these arrangements as at 31 December 2020 was £43.0m (2019: £35.1m). In addition, the Group has an uncommitted, non-recourse, separate receivables financing facility with a maximum value of £25m. The balance funded under this facility at 31 December 2020 was £24.3m (2019: £25.7m).

**Equity fundraise and debt refinancing**

At the time of the refinancing of the Group’s facilities on 26 June 2020, the Group’s liquidity forecast for the period ending 31 December 2021, which was prepared in support of that refinancing, indicated that the Group would not have sufficient funds to repay deferred VAT, believed at the time to be due for repayment in full on or before 31 March 2021.

In September 2020, the UK Government announced that an instalment payment scheme would be introduced, and details of the final scheme were published on 23 February 2021. The revised repayment profile had the effect of delaying the potential liquidity shortfall from March 2021 to later in the year.

In order to address the liquidity shortfall, the Directors engaged professional advisors in late 2020 to assess the Group's options for refinancing its debt facilities and to engage with potential lenders. On 20 May 2021, following a detailed appraisal by the Directors, the Company and certain subsidiary undertakings, entered into a new Receivables Financing Agreement ("RFA") to replace the existing Group funding arrangements. The RFA contained certain requirements to be met before completion, the most significant of which was that the Company raise new equity capital of at least £40.0m. This condition was satisfied and the RFA became effective on 10 June 2021.

The key terms of the new facility, which is provided jointly by RBS Invoice Finance Limited, ABN AMRO Asset Based Finance N.V., UK Branch and Leumi ABL Limited, are set out below:

I. Maximum receivables financing facility of £90.0m over a four-and-a-half-year term, with a one-year extension option;
II. An Accordion option of up to an additional £15.0m, subject to lender approval;
III. Security on all of the assets and undertakings of the Company and certain subsidiary undertakings;
IV. Interest accruing at 2.75% over SONIA, with a margin ratchet downward to 2.0%, dependent upon the Group's leverage reducing to 3.00x;
V. A non-utilisation fee of 0.35% of the margin;
VI. Maximum net debt (averaged over a rolling three months) to EBITDA leverage covenant commencing at 5.95x followed by a gradual reduction to 4.0x by October 2023; and
VII. Minimum interest cover covenant of 2.25x the last twelve months EBITDA to finance charges

An arrangement fee of £0.9m was paid to the lenders in respect of the RFA.

The new facility enabled the cancellation of the existing facilities, comprising the RCF of £20.0m and the RFF of £68.2m and also the non-recourse Receivables Purchase Facility of £25.0m. The Group will continue to have access to its existing customer financing arrangements in respect of specific customers, under which invoices are settled in advance of normal credit terms.

The Group announced a proposed Placing, Subscription and Open Offer (the "Fundraise") on 21 May 2021 following conditional agreement of the debt refinancing the previous day. The Fundraise comprised the following elements:

- A total of 87,249,500 new ordinary shares of 10 pence each placed at a price of 50 pence per share (the "Issue Price") to certain existing shareholders, new institutional investors and certain Directors and employees of the Group;
- A total of 750,500 new ordinary shares of 10 pence each to certain Directors and employees of the Group at the Issue Price, and;
- An open offer to existing shareholders of 10 shares for every 78 ordinary shares held, for a total of 8,837,242 new ordinary shares of 10 pence each at the Issue Price.

The total gross proceeds of the Fundraise, which was approved by the shareholders in a General Meeting on 9 June 2021, were £48.4m. The total costs of the Fundraise and debt refinancing were c. £4.0m. The net proceeds are to be used to reduce total indebtedness and to provide working capital for growth.

**Dividends**
As a condition of refinancing the debt facility, dividends are permitted to be paid from 1 July 2022 subject to no default of the RFA and no forecast default on a 6 month look forward basis from the date of the dividend payment.

**Going Concern**

The financial statements have been prepared on a going concern basis. The Directors have reviewed this basis and have made full disclosure in note 3, concluding that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

**Daniel Quint**
Chief Financial Officer
21 June 2021

# Consolidated statement of comprehensive income

## For the year ended 31 December 2020

| | Note | **2020 Underlying £m** | **2020 Non-underlying* £m** | **2020 Total £m** | 2019 Underlying Restated £m | 2019 Non-underlying* Restated £m | 2019 Total Restated £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 4 | **927.6** | **–** | **927.6** | 1,063.0 | – | 1,063.0 |
| Cost of sales | 5 | **(853.0)** | **–** | **(853.0)** | (975.5) | – | (975.5) |
| **Gross profit** | | **74.6** | **–** | **74.6** | 87.5 | – | 87.5 |
| Administrative expenses | 5 | **(69.8)** | **(49.1)** | **(118.9)** | (84.6) | (39.1) | (123.7) |
| **Operating (loss)/profit** | | **4.8** | **(49.1)** | **(44.3)** | 2.9 | (39.1) | (36.2) |
| Finance costs | | **(4.1)** | **(3.2)** | **(7.3)** | (5.0) | (3.2) | (8.2) |
| **(Loss)/profit for the year before taxation** | | **0.7** | **(52.3)** | **(51.6)** | (2.1) | (42.3) | (44.4) |
| Tax credit | 6 | **2.7** | **0.4** | **3.1** | 1.0 | 2.4 | 3.4 |
| **(Loss)/profit from continuing activities** | | **3.4** | **(51.9)** | **(48.5)** | (1.1) | (39.9) | (41.0) |
| Loss from discontinued operations | | | | **(4.2)** | | | (3.0) |
| **Loss for the year** | | | | **(52.7)** | | | (44.0) |
| Items that will not be reclassified to profit and loss – actuarial losses, net of tax | | | | **(0.8)** | | | (0.7) |
| Items that may be reclassified to profit and loss – cumulative translation loss | | | | **(0.1)** | | | – |
| **Total comprehensive loss for the year** | | | | **(53.6)** | | | (44.7) |
| | | | | | | | |
| **Loss per ordinary share** | 7 | | | | | | |
| Continuing operations: | | | | | | | |
| Basic and diluted | | | | **(71.5)p** | | | (89.6)p |
| Discontinued operations: | | | | | | | |
| Basic and diluted | | | | **(6.2)p** | | | **(6.7)p** |

* An analysis of the non-underlying items is provided in note 5

Comparative results have been restated for the effect of the activities that were discontinued in 2020.

The accompanying notes form an integral part of these financial statements.

# Consolidated statement of changes in equity

## For the year ended 31 December 2020

| | Share capital £m | Own shares JSOP £m | Share premium £m | Share-based payment reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|---|
| **At 1 January 2019** | 2.8 | (4.8) | 41.2 | 0.3 | 43.0 | 82.5 |
| Issue of share capital | 4.1 | – | 36.9 | – | – | 41.0 |
| Costs of issue of share capital | – | – | (3.0) | – | – | (3.0) |
| Save As You Earn (“SAYE”) share scheme – equity-settled | – | – | – | 0.2 | (0.2) | – |
| **Transactions with owners** | 4.1 | – | 33.9 | 0.2 | (0.2) | 38.0 |
| Loss for the year | – | – | – | – | (44.0) | (44.0) |
| Actuarial loss on pension scheme, net of taxation | – | – | – | – | (0.7) | (0.7) |
| **Total comprehensive loss for the year, net of tax** | – | – | – | – | (44.7) | (44.7) |
| **At 31 December 2019** | **6.9** | **(4.8)** | **75.1** | **0.5** | **(1.9)** | **75.8** |
| Save As You Earn (“SAYE”) share scheme – equity-settled | – | – | – | 0.1 | (0.1) | – |
| **Transactions with owners** | **–** | **–** | **–** | **0.1** | **(0.1)** | **–** |
| Loss for the year | – | – | – | – | (52.7) | (52.7) |
| Actuarial loss on pension scheme, net of taxation | – | – | – | – | (0.8) | (0.8) |
| Cumulative translation adjustments | – | – | – | – | (0.1) | (0.1) |
| **Total comprehensive loss for the year, net of tax** | **–** | **–** | **–** | **–** | **(53.6)** | **(53.6)** |
| **At 31 December 2020** | **6.9** | **(4.8)** | **75.1** | **0.6** | **(55.6)** | **22.2** |

The accompanying notes form an integral part of these financial statements.

# Consolidated statement of financial position

## As at 31 December 2020

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | **2020 £m** | 2019 Restated £m | **2020 £m** | 2019 £m |
| **Assets** | | | | | |
| **Non-current** | | | | | |
| Goodwill | 8 | **59.6** | 94.9 | **–** | – |
| Other intangible assets | | **24.3** | 34.0 | **–** | – |
| Investments | | – | – | **67.8** | 75.0 |
| Property, plant and equipment | 9 | **9.6** | 14.6 | **–** | – |
| Deferred tax asset | | **4.4** | 1.4 | **–** | – |
| | | **97.9** | 144.9 | **67.8** | 75.0 |
| **Current** | | | | | |
| Trade and other receivables | | **104.8** | 132.4 | **7.7** | 51.3 |
| Current tax asset | | **1.7** | 5.3 | **0.2** | – |
| Cash and cash equivalents | 11 | **24.5** | 25.0 | **–** | – |
| Restricted cash | 11 | **0.9** | 12.7 | **–** | – |
| | | **131.9** | 175.4 | **7.9** | 51.3 |
| **Total assets** | | **229.8** | 320.3 | **75.7** | 126.3 |
| **Liabilities** | | | | | |
| **Current** | | | | | |
| Trade and other payables | | **153.3** | 126.4 | **3.8** | 8.8 |
| Borrowings | 12 | **13.0** | 6.4 | **–** | – |
| Other liabilities | | **–** | 0.7 | **–** | – |
| Provisions | | **3.8** | 16.0 | **–** | – |
| Lease liabilities | 10 | **1.6** | 2.6 | **–** | – |
| | | **171.7** | 152.1 | **3.8** | 8.8 |
| **Non-current** | | | | | |
| Borrowings | 12 | **20.0** | 78.1 | **20.0** | 78.1 |
| Other liabilities | | **7.3** | 1.4 | **0.4** | 1.4 |
| Provisions | | **1.2** | 2.4 | **–** | – |
| Lease liabilities | 10 | **3.9** | 5.8 | **–** | – |
| Deferred tax liabilities | | **3.5** | 4.7 | **–** | – |
| | | **35.9** | 92.4 | **20.4** | 79.5 |
| **Total liabilities** | | **207.6** | 244.5 | **24.2** | 88.3 |
| **Equity** | | | | | |
| Share capital | 13 | **6.9** | 6.9 | **6.9** | 6.9 |
| Own shares | | **(4.8)** | (4.8) | **(4.8)** | (4.8) |
| Share premium | | **75.1** | 75.1 | **75.1** | 75.1 |
| Share-based payment reserve | | **0.6** | 0.5 | **–** | – |
| Profit and loss account | | **(55.6)** | (1.9) | **(25.7)** | (39.2) |
| **Total equity** | | **22.2** | 75.8 | **51.5** | 38.0 |
| **Total equity and liabilities** | | **229.8** | 320.3 | **75.7** | 126.3 |

The accompanying notes form an integral part of these financial statements.

The 2019 balance sheet has been restated to present Current Tax assets being corporation tax receivable.

# Consolidated statement of cash flows

## For the year ended 31 December 2020

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Cash flows from operating activities** | 14 | **65.8** | 1.6 |
| Taxation paid | 6 | **(0.5)** | (1.1) |
| **Net cash inflow from operating activities** | | **65.3** | 0.5 |
| **Cash flows from investing activities – trading** | | | |
| Purchases of property, plant and equipment | 9 | **(1.3)** | (2.5) |
| Sale of property, plant and equipment | | **0.2** | 0.6 |
| Purchase of intangible assets – software | | **(1.3)** | (3.2) |
| **Cash flows from investing activities – acquisitions** | | | |
| Acquisition of businesses – deferred consideration for prior year acquisitions | | **(0.3)** | (7.2) |
| **Total cash flows arising from investing activities** | | **(2.7)** | (12.3) |
| **Total cash flows arising from operating and investing activities** | | **62.6** | (11.8) |
| **Cash flows from financing activities** | | | |
| New loans (net of transaction fees) | | **43.0** | 24.9 |
| Reduction in Receivables Finance Facility | | **(29.7)** | – |
| Loan repayments | | **(58.1)** | (26.8) |
| Principal repayment of lease liabilities | | **(3.4)** | (3.2) |
| Interest paid | | **(8.5)** | (6.0) |
| Payment from/(into) restricted fund | | **11.8** | (12.7) |
| Settlement of NMW liabilities from restricted funds | | **(11.8)** | – |
| Gross proceeds from the issue of share capital | | **–** | 41.0 |
| Costs relating to the issue of share capital | | **–** | (3.0) |
| **Net cash flows from financing activities** | | **(56.7)** | 14.2 |
| **Net change in cash and cash equivalents** | | **5.9** | 2.4 |
| **Cash and cash equivalents at beginning of year** | | **18.6** | 16.2 |
| **Cash and cash equivalents at end of year** | 11 | **24.5** | 18.6 |

The accompanying notes form an integral part of these financial statements.

# Notes to the financial information

For the year ended 31 December 2020

## 1 Nature of operations

The principal activities of Staffline Group plc and its subsidiaries ("the Group") include the provision of recruitment and outsourced human resource services to industry and the provision of skills training and probationary services.

## 2 General information and statement of compliance

Staffline Group plc, a Public Limited Company limited by shares listed on AIM ("the Company"), is incorporated and domiciled in England, United Kingdom. The Company acts as the holding company of the Group. The Company's registration number is 05268636.

The financial information set out in this document does not constitute the Group's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) contained an Emphasis of Matter highlighting a materiality uncertainly related to going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory accounts for 2020 will be delivered to the registrar of companies in due course. The auditors have reported on those accounts; their reports were (i) unqualified, and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements for the year ended 31 December 2020 (including the comparatives for the year ended 31 December 2019) were approved and authorised for issue by the Board of Directors on 21 June 2021. This results announcement for the year ended 31 December 2020 was also approved by the Board on 21 June 2021.

## 3 Accounting policies

### *Basis of preparation*

The Consolidated financial statements are prepared for the year ended 31 December 2020. The Consolidated financial statements of the Group have been prepared on a going concern basis using the significant accounting policies and measurement bases summarised below, and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements are prepared under the historical cost convention except for cash-settled share options which are measured at fair value.

There are no new accounting pronouncements which have become effective in the year.

### *Going concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

As described in the Chief Executive Officer's Review, despite the challenging trading conditions experienced across all divisions in the Group during 2020, the Group reported an underlying operating profit for the year on continuing activities. In the recruitment divisions, the impact of Covid-19 was mixed with customers in the food distribution and online retail sectors experiencing increased demand. Other sectors such as manufacturing and automotive industries were severely impacted by the lockdowns and subsequent reduced demand. The Group's PeoplePlus division was impacted by the disruption to its training programmes, with all face-to-face training cancelled or transferred to digital delivery. In response to the pandemic, the Directors enabled the majority of its permanent staff to work from home and provided additional support with Covid-secure working practices implemented at customers' premises.

As a result of the pandemic, trading volumes in the first half of the year were severely impacted. The Directors maintained tight cost control throughout with overheads at reduced levels, additionally benefitting from previous restructuring programmes. These initiatives resulted in improved performance in the second half of the year as lockdown restrictions eased, resulting in underlying profit and positive cash generation.

The Directors had previously highlighted that the Group's financial forecasts indicated a liquidity issue in early 2021 when VAT of £46.5m, deferred from the period between March to June 2020, had to be repaid. On 24 September 2020 the UK Government announced that an instalment payment scheme would be introduced, and details of the final scheme were published on 23 February 2021. The revised repayment profile of equal instalments over eight months commencing June 2021 had the effect of delaying the potential liquidity shortfall from March 2021 to later in the year.

In order to address the liquidity shortfall the Directors engaged professional advisors in late 2020 to assess the Group's options for refinancing its debt facilities and to engage with potential lenders. On 20 May 2021, following a detailed appraisal by the Directors, the Company and certain subsidiary undertakings, entered into a new £90m Receivables Financing Agreement ("RFA") to replace the existing Group funding arrangements. The RFA contained certain requirements to be met before completion, the most significant of which was that the Company raise new equity capital of at least £40.0m. This condition was satisfied and the RFA became effective on 10 June 2021.

The new facility enabled the cancellation of the existing facilities, comprising the RCF of £20.0m and the RFF of £68.2m and also the non-recourse Receivables Purchase Facility of £25.0m. The Group will continue to have access to its existing customer financing arrangements in respect of specific customers, under which invoices are settled in advance of normal credit terms.

The Group announced a proposed Placing, Subscription and Open Offer (the "Fundraise") on 21 May 2021 following conditional agreement of the debt refinancing. The Fundraise comprised the following elements:

- A total of 87,249,500 new ordinary shares of 10 pence each placed at a price of 50 pence per share (the "Issue Price") to certain existing shareholders, new institutional investors and certain Directors and employees of the Group;
- A total of 750,500 new ordinary shares of 10 pence each to certain Directors and employees of the Group at the issue price, and;
- An open offer to existing shareholders of 10 shares for every 78 ordinary shares held, for a total of 8,837,242 new ordinary shares of 10 pence each at the issue price.

The total proceeds of the Fundraise, which was approved by the shareholders in a General Meeting on 9 June 2021, was £48.4m. The total cost of the Fundraise and debt refinancing was £4.0m. The net proceeds are to be used to reduce total indebtedness and to provide working capital for growth.

The Directors have prepared updated forecasts and cash flow projections to 31 December 2022, which is considered to be a reasonable period over which a reasonable view can be formed. These forecasts, which incorporate the effect of the Fundraise and debt refinancing described above, have been used to assess going concern and have been stress-tested by applying sensitivity analysis, principally involving significant reductions to revenues across all three divisions, over the period to 31 December 2022.

The Covid-19 pandemic caused considerable disruption to significant parts of the business, and even as lockdown and social distancing measures are eased, there remains uncertainty over the rate at which economic activity will recover. The Group reacted swiftly to the immediate effects of the pandemic in the first half of 2020 with tight cost control combined with support from the government through the furlough scheme and the VAT payment deferral. The sensitivity testing undertaken on the future forecasts, demonstrated that there are a number of mitigating actions available to the Group, which would constrain losses and conserve working capital.

The sensitivity analysis also demonstrated that under the stress-tests applied, the Group would be able to comply with the financial covenants, as specified in the RFA, which are described in note 12.

In forming their opinion, the Directors have performed a robust assessment of the principal risks and uncertainties facing the Group. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully.

At 31 December 2020, the Group had net debt of £8.8m (2019: £59.5m), on a pre-IFRS 16 basis, and following the debt refinancing has committed facilities until 1 December 2025. Further details of the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

As at 18 June 2021, the Group had cash at bank of £63.2m and an unutilised facility of £25.5m under its RFA, resulting in aggregate available liquidity of £88.7m.

As a result, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due over the assessment period. The Directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least eighteen months from when the financial statements are authorised for issue. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## *Consolidation of subsidiaries*

The Group financial statements consolidate those of the parent Company and all of its subsidiaries as at 31 December 2020 in accordance with IFRS 10. Subsidiaries are all entities to which the Group is exposed or has rights to variable returns and the ability to affect those returns through control over the subsidiary. The results of subsidiaries whose accounts are prepared in a currency other than sterling; are translated at the average rates of exchange during the period and their year-end balances at the year-end rate of exchange. Translation adjustments are taken to the profit and loss reserves.

Material intra-Group balances and transactions, and any unrealised gains or losses arising from intra-Group transactions, are eliminated in preparing these financial statements.

## *Underlying profit – non-GAAP measures of performance*

In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles ("GAAP") under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non-GAAP measures are not a substitute, or superior to, any IFRS measures of performance but they have been included as the Directors consider them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

**Non-underlying items of income and expenditure**

These non-underlying charges are regarded as recurring or non-recurring items of income or expenditure of a particular size and/or nature relating to the operations of the business that in the Directors' opinion require separate identification. These items are included in "total" reported results but are excluded from "underlying" results. These items can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance.

**Underlying EBITDA**

Underlying operating profit before the deduction of underlying depreciation and amortisation charges. This is considered a useful measure because it approximates the underlying cash flow by eliminating depreciation and amortisation charges.

**Net debt**

Net debt is the amount of bank debt less available cash balances excluding escrow funds. This is a key measure as it is one on which the terms of the banking facilities are based and shows the level of external debt utilised by the Group to fund operations. Net debt is also presented on a pre-IFRS 16 basis which excludes lease liabilities.

The Directors acknowledge that the adjustments made to arrive at underlying profit may not be comparable to those made by other companies, mainly in respect of the adjustment for share-based payment charges including both equity and cash-settled components. It should be noted that whilst the amortisation of acquisition-related intangible assets has been added back, the revenue from those acquisitions has not been eliminated.

All of these alternative performance measures are utilised by the Board to monitor performance and financial position. They show a comparable level of performance excluding one-off items, with which underlying performance and ability to service debt can be judged.

## *Business combinations*

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests of the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the statement of comprehensive income immediately.

## *Segment reporting*

The Group has three material reportable operating segments: the provision of recruitment and outsourced human resource services to industry, in Great Britain (Recruitment GB) an also in Ireland (Recruitment Ireland), plus the provision of skills training and probationary services, together "PeoplePlus". Each of these reportable operating segments is managed separately as each requires different technologies, marketing approaches and other resources. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

## 4 Segmental reporting

Management currently identifies three reportable segments: Recruitment GB, the provision of workforce recruitment and management to industry, Recruitment Ireland, the provision of generalist recruitment services and PeoplePlus, the provision of skills training and probationary services. The Group's reporting segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board.

Whilst there are individual legal entities within the three reportable segments, they are operated and reviewed as single units by the Board of Directors. Each legal entity within a reportable segment has the same management team, head office and have similar economic characteristics. The Group's strategy, historically and going forward, has been to integrate new acquisitions into the main trading entities within each reportable segment.

Segment information for the reporting year is as follows:

| | **Recruitment GB 2020 £m** | **Recruitment Ireland 2020 £m** | **PeoplePlus 2020 £m** | **Group Costs 2020 £m** | **Total Group 2020 £m** | Recruitment GB Restated** 2019 £m | Recruitment Ireland 2019 £m | PeoplePlus Restated** 2019 £m | Group Costs 2019 £m | Total Group Restated 2019 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment continuing operations:** | | | | | | | | | | |
| Sales revenue from external customers | **732.1** | **120.5** | **75.0** | **–** | **927.6** | 840.0 | 147.7 | 75.3 | – | 1,063.0 |
| Cost of sales | **(685.9)** | **(110.0)** | **(57.1)** | **–** | **(853.0)** | (783.4) | (132.1) | (60.0) | – | (975.5) |
| **Segment gross profit** | **46.2** | **10.5** | **17.9** | **–** | **74.6** | 56.6 | 15.6 | 15.3 | – | 87.5 |
| Administrative expenses | **(38.2)** | **(8.2)** | **(13.4)** | **(2.6)** | **(62.4)** | (49.1) | (10.7) | (15.3) | (2.5) | (77.6) |
| Depreciation, software & lease amortisation | **(3.8)** | **(0.7)** | **(2.9)** | **–** | **(7.4)** | (2.9) | (0.6) | (3.5) | – | (7.0) |
| **Segment underlying operating profit/(loss)*** | **4.2** | **1.6** | **1.6** | **(2.6)** | **4.8** | 4.6 | 4.3 | (3.5) | (2.5) | 2.9 |
| Reorganisation costs including asset impairment | **(2.0)** | **(0.7)** | **–** | **(1.3)** | **(4.0)** | (1.3) | – | (1.0) | (1.4) | (3.7) |
| Legal investigation professional fees | **–** | **–** | **–** | **–** | **–** | (1.0) | – | – | – | (1.0) |
| NMW remediation costs and financial penalties | **–** | **–** | **–** | **–** | **–** | 0.7 | – | – | – | 0.7 |
| Audit scope extension | **–** | **–** | **–** | **–** | **–** | (0.6) | – | (0.2) | – | (0.8) |
| Transaction costs | **–** | **–** | **–** | **(0.5)** | **(0.5)** | – | – | – | (0.9) | (0.9) |
| Amortisation of intangibles arising on business combinations | **(7.6)** | **(1.4)** | **(0.2)** | **–** | **(9.2)** | (8.0) | (1.3) | (1.6) | – | (10.9) |
| Goodwill impairment | **(18.8)** | **–** | **(16.5)** | **–** | **(35.3)** | (14.3) | – | (8.0) | – | (22.3) |
| Share-based payment charge | **–** | **–** | **(0.1)** | **–** | **(0.1)** | (0.1) | – | (0.1) | – | (0.2) |
| **Segment (loss)/profit from operations** | **(24.2)** | **(0.5)** | **(15.2)** | **(4.4)** | **(44.3)** | (20.0) | 3.0 | (14.4) | (4.8) | (36.2) |
| **Finance costs** | **(2.5)** | **(0.2)** | **(0.1)** | **(4.5)** | **(7.3)** | (1.7) | – | (0.1) | (6.4) | (8.2) |
| **Segment (loss)/profit before taxation** | **(26.7)** | **(0.7)** | **(15.3)** | **(8.9)** | **(51.6)** | (21.7) | 3.0 | (14.5) | (11.2) | (44.4) |
| **Tax credit/(charge)** | **0.6** | **0.2** | **0.7** | **1.6** | **3.1** | 2.6 | 0.5 | 0.1 | 0.2 | 3.4 |
| **Segment (loss)/profit from continuing operations** | **(26.1)** | **(0.5)** | **(14.6)** | **(7.3)** | **(48.5)** | (19.1) | 3.5 | (14.4) | (11.0) | (41.0) |

| | Recruitment GB 2020 £m | Recruitment Ireland 2020 £m | PeoplePlus 2020 £m | Staffline Group 2020 £m | Total Group 2020 £m | Recruitment GB Restated 2019 £m | Recruitment Ireland 2019 £m | PeoplePlus Restated 2019 £m | Staffline Group 2019 £m | Total Group Restated 2019 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total non-current assets** | **45.9** | **11.5** | **40.5** | **–** | **97.9** | 71.3 | 16.1 | 57.5 | – | 144.9 |
| **Total current assets** | **97.9** | **15.6** | **18.4** | **–** | **131.9** | 134.1 | 21.4 | 19.9 | – | 175.4 |
| **Total assets (consolidated)** | **143.8** | **27.1** | **58.9** | **–** | **229.8** | 205.4 | 37.5 | 77.4 | – | 320.3 |
| **Total liabilities (consolidated)** | **142.3** | **22.6** | **22.1** | **20.6** | **207.6** | 119.4 | 28.3 | 16.4 | 80.4 | 244.5 |
| **Cash capital expenditure inc software** | **1.2** | **0.1** | **1.3** | **–** | **2.6** | 3.7 | 0.1 | 1.9 | – | 5.7 |

* Segment underlying operating profit before goodwill impairment, amortisation of intangible assets arising on business combinations, reorganisation costs and other non-underlying costs.

**The prior year has been restated to exclude Apprenticeships from PeoplePlus and to exclude Poland from Recruitment GB.

Revenues can be analysed by country as follows (97% of revenues arising within the UK in 2020, 96% in 2019):

| | Recruitment GB 2020 £m | Recruitment Ireland 2020 £m | PeoplePlus 2020 £m | Total Group 2020 £m | Recruitment GB Restated 2019 £m | Recruitment Ireland 2019 £m | PeoplePlus Restated 2019 £m | Total Group Restated 2019 £m |
|---|---|---|---|---|---|---|---|---|
| UK | **732.1** | **91.4** | **75.0** | **898.5** | 840.0 | 110.9 | 75.3 | 1,026.2 |
| Republic of Ireland | **–** | **29.1** | **–** | **29.1** | – | 36.8 | – | 36.8 |
| | **732.1** | **120.5** | **75.0** | **927.6** | 840.0 | 147.7 | 75.3 | 1,063.0 |

The comparative results have been restated to exclude the discontinued activities.

No customer contributed more than 10% of the Group's revenue during either 2020 or 2019.

## 5 Expenses by nature

Expenses by nature are as follows:

### *Underlying expenses*

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| Employee benefits expenses – cost of sales | **827.9** | 939.7 |
| Other cost of sales | **25.1** | 35.8 |
| Employee benefits expenses – administrative expenses | **40.5** | 45.4 |
| Depreciation and software amortisation | **7.4** | 7.3 |
| Operating lease expenses | **1.5** | 1.2 |
| Other administrative expenses | **20.4** | 30.7 |
| | **922.8** | 1,060.1 |
| Disclosed as: | | |
| Cost of sales | **853.0** | 975.5 |
| Administrative expenses | **69.8** | 84.6 |
| | **922.8** | 1,060.1 |

### *Auditors' remuneration*

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | **15** | 15 |
| Fees payable to the company's auditor and its associates for other services: | | |
| - Audit of the accounts of subsidiaries | **680** | 1,176 |
| - Audit of the pension scheme | **18** | 11 |
| - Audit related assurance services | **154** | 200 |
| Total | **867** | **1,402** |

For 2019, £805,000 of the above was for additional audit procedures including prior year adjustments, which is considered to be non-underlying.

### *Non-underlying expenses – continuing operations*

| | *Note* | **2020 £m** | 2019 £m |
|---|---|---|---|
| Reorganisation, rationalisation and restructuring costs | *1* | **4.0** | 3.7 |
| Legal investigation professional fees | | **–** | 1.0 |
| NMW remediation costs and financial penalties | | **–** | (0.7) |
| Revised audit scope and increased audit fees | | **–** | 0.8 |
| Transaction costs – business acquisitions and strategic options | *2* | **0.5** | 0.9 |
| Refinancing costs | *3* | **3.2** | 3.2 |
| Amortisation of intangible assets arising on business combinations (licences, customer contracts) | *4* | **9.2** | 10.9 |
| Goodwill impairment | *5* | **35.3** | 22.3 |
| Share-based payment charges – other senior executives | | **0.1** | 0.2 |
| | | **52.3** | 42.3 |
| Tax credit on above non-underlying expenses | | **(0.4)** | (2.4) |
| **Post taxation effect on above non-underlying expenses** | | **51.9** | 39.9 |

1. During the year the Group has continued its reorganisation, rationalisation and restructuring programme across all the divisions in order to reduce the number of properties occupied and reducing administration headcount. In the prior year the Group implemented a strategy of transitioning the PeoplePlus division away from a predominantly Work Programme driven business to a skills and training business.

2. Costs have been incurred in the current year and prior years in relation to advice on the Group's strategic options.

3. The Group's credit facilities were restructured during the year at a cost of £3.2m (2019: £3.2m). Further details of the refinancing are given in note 12.

4. The charge for amortisation of intangible assets arising on business combinations relates principally to the acquisitions of the Endeavour Group, Passionate About People, Grafton Recruitment, Milestone and Brightwork.

5. The results of an impairment review showed that further impairment charges to goodwill were required in the Recruitment GB and PeoplePlus cash-generating units of £18.8m (2019: £14.3m) and £16.5m (2019: £8.0m) respectively. Further details are given in note 8.

## 6 Tax expense

The tax credit on the loss for the year consists of:

| **Continuing activities** | **2020 £m** | 2019 Restated £m |
|---|---|---|
| Corporation tax | | |
| UK corporation tax at 19.00% (2019: 19.00%) | **0.8** | 0.7 |
| Adjustments in respect of prior years | **–** | (1.7) |
| **UK current tax (credit)/charge** | **0.8** | (1.0) |
| Deferred tax | | |
| Timing differences arising in the year | **(3.3)** | (1.6) |
| Adjustments in respect of prior years | **(0.6)** | (0.8) |
| **UK deferred tax credit** | **(3.9)** | (2.4) |
| **Total UK tax credit for the year** | **(3.1)** | (3.4) |

In the prior year, the net "adjustments in respect of prior years" credit of £2.5m (current £1.7m credit, deferred £0.8m credit) arose largely from the use of trading losses to reduce previously estimated tax liabilities (current) and the recognition of trading losses available to offset current and future profits generated by the Group's subsidiaries in Ireland.

The tax credit for the year, as recognised in the statement of comprehensive income, is lower than the standard rate of corporation tax in the UK of 19.00% (2019: lower than the 19.00% standard rate). The differences are explained below:

| | **2020 £m Total** | 2019 Restated £m Total |
|---|---|---|
| Loss for the year before taxation | **(51.6)** | (44.4) |
| Tax rate | **19%** | 19% |
| **Tax on loss for the year at the standard rate** | **(9.8)** | (8.4) |
| Effect of: | | |
| Goodwill impairment | **6.7** | 4.2 |
| Change in deferred tax rate to 19.00% | **0.5** | 0.2 |
| Expenses not allowable | **0.9** | 0.7 |
| Adjustments in respect of prior years | **(0.6)** | (2.5) |
| Tax losses available | **(0.8)** | 2.4 |
| **Actual tax credit** | **(3.1)** | (3.4) |
| On underlying profit/(loss) | **(2.7)** | (1.0) |
| On non-underlying loss | **(0.4)** | (2.4) |
| **Actual tax credit** | **(3.1)** | (3.4) |
| Effective total tax rate for the year | **6.0%** | 7.7% |

The total tax credit for the year of £3.1m (2019: restated £3.4m), which amounts to 6.0% (2019: 7.7%) of the loss for the year, relates principally to the movement of deferred tax balances including the recognition of deferred taxation of carried forward tax losses. The Group has no current corporation tax liability in respect of either the current or prior years. An amount of overpaid corporation tax of £4.1m has been offset against the balance of VAT that was deferred between March and June 2020. The remaining corporation tax amounts receivable were received in early 2021.

The impairment of goodwill is not deductible under UK corporation tax and is therefore added back to taxable profits. A deferred tax liability is recognised in respect of intangible assets arising on acquired businesses. This liability is reduced each year in line with the amortisation charge, giving rise to a deferred tax credit each year. No deferred tax is recognised on JSOP charges.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 was calculated based on that rate. In the 11 March 2020 Budget, it was announced that the UK tax rate would remain at 19% and not reduce to 17% from 1 April 2020.

No material tax charges arise on overseas profits or losses and accordingly no disclosures relating to overseas tax are included within the financial statements.

## 7 Earnings per share and dividends

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, after deducting any shares held in the Joint Share Ownership Plan or "JSOP" – "own shares" (2020 and 2019 year-end 1,140,400 shares). The calculation of the diluted earnings per share is based on the basic earnings per share as adjusted to further take into account the potential issue of ordinary shares resulting from share options granted to certain Directors and share options granted to employees in 2017, 2018 and 2019 under the SAYE scheme.

Details of the earnings and weighted average number of shares used in the calculations are set out below:

| | **Basic 2020** | Basic Restated 2019 | **Diluted 2020** | Diluted Restated 2019 |
|---|---|---|---|---|
| Loss from continuing operations (£m) | **(48.5)** | (41.0) | **(48.5)** | (41.0) |
| Weighted average number of shares | **67,790,086** | 45,668,823 | **67,790,086** | 45,668,823 |
| Loss per share from continuing operations (p) | **(71.5)p** | (89.6)p | **(71.5)p** | (89.6)p |
| Underlying (loss)/earnings from continuing operations (£m) | **3.4** | (1.1) | **3.4** | (1.1) |
| Underlying (loss)/earnings per share (p)* | **5.0p** | (2.4)p | **5.0p** | (2.4)p |
| Loss from discontinued operations (£m) | **(4.2)** | (3.0) | **(4.2)** | (3.0) |
| Weighted average number of shares | **67,790,086** | 45,668,823 | **67,790,086** | 45,668,823 |
| Loss per share from discontinued operations (p) | **(6.2)p** | (6.6)p | **(6.2)p** | (6.6)p |
| Underlying (loss)/earnings from discontinued operations (£m) | **(1.9)** | (3.0) | **(1.9)** | (3.0) |
| Underlying (loss)/earnings per share (p)* | **(2.8)p** | (6.6)p | **(2.8)p** | (6.6)p |

* Underlying operating profit before goodwill impairment, amortisation of intangible assets arising on business combinations, reorganisation costs and other non-underlying costs.

The weighted average number of shares for the year ended 31 December 2019 (basic) was increased by 22,121,263 shares to take account of the effect of the placing and open offer in July 2019 whereby 40,986,097 new ordinary shares were issued.

## *Dividends*

No dividends have been paid in either the current or prior years and no final dividend for 2020 has been proposed.

## 8 Goodwill

**Gross carrying amount by reportable segment**

| **Gross carrying amount** | Recruitment GB £m | Recruitment Ireland £m | PeoplePlus £m | Total £m |
|---|---|---|---|---|
| **At 31 December 2019** | **54.5** | **5.7** | **57.0** | **117.2** |
| **Impairment adjustment** | | | | |
| **At 1 January 2019** | 14.3 | – | 8.0 | 22.3 |
| Charged in the year | 18.8 | – | 16.5 | 35.3 |
| **At 31 December 2020** | **33.1** | – | **24.5** | **57.6** |
| **Net book amount at 31 December 2019** | **21.4** | **5.7** | **32.5** | **59.6** |
| Net book amount at 31 December 2019 | 40.2 | 5.7 | 49.0 | 94.9 |

**Impairment – Goodwill**
Management consider there to be three cash-generating units ("CGU"), being Recruitment GB, Recruitment Ireland and PeoplePlus, in line with the reportable operating segments defined in note 4. These three cash-generating units have been tested for impairment.

An impairment review was done at the half year reporting period. This led to an impairment being noted in the Recruitment GB and PeoplePlus cash-generating units. The impairment review was performed using forecasts, adjusted for the impact of the Covid-19 pandemic, using discount rates of 11.7% for Recruitment GB, 10.9% for Recruitment Ireland and 11.7% for PeoplePlus. The results of the impairment review performed showed headroom in the Recruitment Ireland cash-generating unit and accordingly no impairment noted, but that impairments to goodwill were required in the Recruitment GB and PeoplePlus CGU's of £18.8m and £16.5m respectively.

An updated review was conducted as at 31 December 2020, the recoverable amount of goodwill was determined based on a value-in-use calculation, using forecasts for 2021-23, followed by an extrapolation of expected cash flows over the next two years with a 0% growth rate for each cash-generating unit. The budget and forecast are prepared by the individual reportable segments of the Group taking into account individual contracts, historic performance and new contract wins. Pre-tax discount rates of 13.0% for Recruitment GB, 12.0% for Recruitment Ireland and 10.8% for PeoplePlus (2019: 11.7% for Recruitment GB and PeoplePlus and 10.9% for Recruitment Ireland) were used based on the weighted average costs of capital for each operating segment. The recoverable amounts of the CGU's, having considered the higher of value-in-use and fair value less costs to sell, were for £73.1m Recruitment GB, £19.6m for Recruitment Ireland and £49.9m for PeoplePlus, all being value-in-use.

The results of the impairment review at 31 December 2020 showed headroom in all cash-generating units and accordingly no further impairment was noted. The same calculations indicated that an impairment was required to the Company's carrying value of its investment in PeoplePlus of £6.9m.

In making the assessment of the recoverability of assets within each CGU a number of judgements and assumptions were required.

The critical judgement relates to the determination of the CGU's. Whilst there are individual legal entities within the three reportable segments, they are operated and reviewed as single units by the Board of Directors. Each reportable segment has its own management team and head office. The Group's strategy, historically and going forward, has been to integrate new acquisitions into the main trading entities within each reportable operating segment.

The key estimates in determining the value of each CGU are:

1. *The discount rate.* In the calculations we have utilised a pre-tax discount rate of 13.0% for Recruitment GB, 12.0% for Recruitment Ireland and 10.8% for PeoplePlus and a terminal growth value of 0%. These rates are based on the latest weighted average costs of capital for each operating segment. These rates have increased this year primarily due to a movement in the risk-free rate. The calculations highlighted headroom of £31.6m for Recruitment GB, headroom of £4.6m for Recruitment Ireland and headroom of £13.0m for PeoplePlus. A 1% increase in the discount rates reduces the headroom to £25.9m for Recruitment GB, reduces headroom to £2.9m for Recruitment Ireland and reduces headroom to £8.7m for PeoplePlus.

2. *The achievability of the forecasted future cash flows.* There is an inherent uncertainty regarding the achievability of forecasts, as there are macro-economic factors outside of the Group's control. A sustained underperformance of 10% reduces the headroom to £24.3m for Recruitment GB, reduces headroom to £2.6m for Recruitment Ireland and reduces headroom to £8.0m for PeoplePlus. A sustained underperformance of 23% would be required before any impairment was necessary to the goodwill.

As at 31 December 2020 the Company had no goodwill (2019: £nil).

## 9 Property, plant and equipment

| Gross carrying amount | Land and buildings £m | Computer equipment £m | Fixtures and fittings £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2019** | 15.2 | 11.0 | 2.5 | 0.2 | 28.9 |
| Additions | 1.6 | 2.2 | 0.1 | – | 3.9 |
| Disposals | (1.2) | (0.2) | (0.3) | – | (1.7) |
| **At 31 December 2019** | **15.6** | **13.0** | **2.3** | **0.2** | **31.1** |
| Additions | 0.3 | 1.2 | 0.1 | – | 1.6 |
| Disposals | (1.2) | (2.9) | (1.1) | – | (5.2) |
| **At 31 December 2020** | **14.7** | **11.3** | **1.3** | **0.2** | **27.5** |
| **Depreciation** | | | | | |
| **At 1 January 2019** | 3.1 | 6.1 | 1.9 | 0.2 | 11.3 |
| Charged in the year – operating | 2.9 | 2.2 | 0.5 | – | 5.6 |
| Charged in the year – impairment* | 0.5 | – | – | – | 0.5 |
| Disposals | (0.5) | (0.2) | (0.2) | – | (0.9) |
| **At 31 December 2019** | **6.0** | **8.1** | **2.2** | **0.2** | **16.5** |
| Charged in the year – operating | 2.8 | 2.7 | 0.1 | – | 5.6 |
| Disposals | (0.9) | (2.2) | (1.1) | – | (4.2) |
| **At 31 December 2020** | **7.9** | **8.6** | **1.2** | **0.2** | **17.9** |
| **Net book value** | | | | | |
| **At 31 December 2020** | **6.8** | **2.7** | **0.1** | **–** | **9.6** |
| At 31 December 2019 | 9.6 | 4.9 | 0.1 | – | 14.6 |

* The impairment of right-of-use assets in 2019 relates to onerous leases

In the year ended 31 December 2019, the Group applied IFRS 16 Leases. The date of initial application of IFRS 16 for the Group was 1 January 2019. The Group applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of these leases, which were previously treated as operating leases, the Group elected to measure the carrying value as if the Standard had been applied since the commencement date but discounted using the Group's incremental borrowing rate at the date of initial application. Right-of-use assets, principally property related assets, comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Additional information on the right-of-use assets by class of assets at 31 December 2020 is as follows:

At 31 December 2020

| | Carrying amount | Depreciation expense | Impairment |
|---|---|---|---|
| Office buildings | 5.0 | (2.6) | - |
| IT equipment | 0.2 | (0.1) | - |
| | **5.2** | **(2.7)** | - |

At 31 December 2019

| | Carrying amount | Depreciation expense | Impairment |
|---|---|---|---|
| Office buildings | 7.6 | (2.5) | (0.5) |
| IT equipment | 0.3 | (0.1) | - |
| | 7.9 | (2.6) | (0.5) |

As at 31 December 2020 the Company had no property, plant and equipment assets (2019: £nil).

## 10 Leases

Lease liabilities are presented in the statement of financial position as follows:

| | **2020 £m** | 2019 £m |
|---|---|---|
| Current | **1.6** | 2.6 |
| Non-current | **3.9** | 5.8 |
| | **5.5** | 8.4 |

The Group has leases for its operational and administrative offices, and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 9).

Unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can typically only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance costs on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the balance sheet:

| Right-of-use asset | No of right-of-use assets leased | Range of remaining term (years) | Average remaining lease term | No of leases with extension options |
|---|---|---|---|---|
| Office building | 49 | 0.1 – 14.2 | 3.3 | 18 |
| IT equipment | 5 | 0.1 – 3.8 | 2.0 | – |

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2020 were as follows:

| | Minimum lease payments due | | | | | |
|---|---|---|---|---|---|---|
| | Within one year | 1-2 years | 2-3 years | 3-4 years | After 5 years | Total |
| **31 December 2020** | | | | | | |
| Lease payments | 1.7 | 1.1 | 0.8 | 0.6 | 1.7 | 5.9 |
| Finance charges | (0.1) | (0.1) | (0.1) | – | (0.1) | (0.4) |
| **Net present value** | **1.6** | **1.0** | **0.7** | **0.6** | **1.6** | **5.5** |
| | | | | | | |
| **31 December 2019** | | | | | | |
| Lease payments | 2.8 | 1.9 | 1.2 | 0.7 | 2.3 | 8.9 |
| Finance charges | (0.2) | (0.1) | (0.1) | – | (0.1) | (0.5) |
| **Net present value** | **2.6** | **1.8** | **1.1** | **0.7** | **2.2** | **8.4** |

**Lease payments not recognised as a liability**

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

| | **2020 £m** | **2019 £m** |
|---|---|---|
| Short-term leases | **0.6** | 0.6 |
| Leases of low value assets | **0.8** | 0.5 |
| | **1.4** | 1.1 |

The Group had not committed to any leases that had not yet commenced.

Total cash outflow for leases for the year ended 31 December 2020 was £4.8m (2019: £2.9m).

## 11 Cash

| | 2020 Group £m | 2019 Group £m |
|---|---|---|
| Cash and cash equivalents | **24.5** | 25.0 |
| Restricted cash | **0.9** | 12.7 |

Cash and cash equivalents and overdrafts consist of cash on hand and balances with banks only. At the year-end £24.5m (2019: £25.0m) of cash on hand and balances with banks were held by subsidiary undertakings; however, this balance is available for use by the Group.

Cash and cash equivalents amounting to £24.5m (2019: £25.0m), as disclosed in the consolidated statement of cash flows comprises cash balances of £24.5m (2019: £25.0m), less overdrafts of £nil (2019: £6.4m).

Restricted cash relates to amounts held in escrow to satisfy the NMW remediation and financial penalties relating to historic HMRC National Minimum Wage breaches. This balance is excluded from net debt.

Long-term credit ratings for the four banks are currently as follows:

| | Fitch | Standard & Poor's | Moody's |
|---|---|---|---|
| Lloyds Banking Group plc | A+ | BBB+ | A3 |
| Bank of Ireland Group plc | BBB | BBB– | Baa2 |
| HSBC Holdings plc | A+ | A– | A2 |
| Royal Bank of Scotland plc | A+ | A | A1* / A2 |

The Group's headroom versus available committed bank facilities is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash at bank (as above) | **24.5** | 25.0 |
| Receivables Finance Facility | **54.9** | – |
| Overdraft facility | **–** | 18.6 |
| Committed revolving credit facility unutilised | **–** | 0.1 |
| **Banking facility headroom** | **79.4** | 43.7 |

## 12 Borrowings

Borrowings are repayable as follows:

| | 2020 Group £m | 2019 Group £m |
|---|---|---|
| In one year or less or on demand* | **14.9** | 9.0 |
| In more than one year but not more than two years* | **21.0** | 1.8 |
| In more than two years but not more than five years* | **1.3** | 79.9 |
| In more than five years* | **1.6** | 2.2 |
| Unamortised transaction costs | **(0.3)** | – |
| **Total borrowings** | **38.5** | 92.9 |

* Ageing of balances above is shown excluding unamortised transaction fees

| | 2020 Group £m | 2019 Group £m |
|---|---|---|
| **Split:** | | |
| **Current liabilities:** | | |
| Receivables Finance Facility | **13.3** | – |
| Unamortised transaction costs | **(0.3)** | – |
| Bank overdraft | **–** | 6.4 |
| Lease liabilities | **1.6** | 2.6 |
| | **14.6** | 9.0 |
| **Non-current liabilities:** | | |
| Revolving credit facility | **20.0** | 78.1 |
| Lease liabilities | **3.9** | 5.8 |
| | **23.9** | 83.9 |
| **Total borrowings** | **38.5** | 92.9 |
| Total borrowings excluding unamortised transaction costs | **38.8** | 92.9 |
| Less: Cash (note 11) | **(24.5)** | (25.0) |
| **Net debt** | **14.3** | 67.9 |

On 26 June 2019 the Group and its lenders agreed to certain amendments to the RCF. The lenders agreed to a waiver of all quarterly financial covenant tests for the period ended 30 June 2019. The key amendments to the RCF were:

i) Relaxation of the September and December 2019 leverage covenants followed by a gradual reduction of the leverage covenant to net debt of less than 2x EBITDA by 31 December 2020;
ii) Restrictions on new material share, business and asset acquisitions until January 2021;
iii) No dividends to be declared by the Company for the 2019 and 2020 financial years;
iv) Repayment and cancellation of revolving facility commitments by £10.0m on both 15 November 2019 and 15 November 2020;
v) Net proceeds of the July 2019 share issue in excess of £30.0m to be used to reduce, and cancel, the Credit Facilities available.

In consideration of these amendments, an amendment fee has been paid to the lenders and certain other changes were made to the Credit Facility (including the removal of the accordion option and the ability to request the lenders to extend the Credit Facility for an additional 12 months beyond July 2022). The expiry date for the Credit Facility remains in June 2022. The Company has agreed to pay the lenders an exit fee based on a percentage of the outstanding commitments when the Credit Facility expires or, if sooner, refinanced.

Interest accrues on the borrowings at between 1.4% and 2.0% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants.

On 24 July 2019, following the share issue, £6.8m was used to reduce, and cancel, part of the Credit Facilities. On 15 November 2019, in line with the amendments above, £10.0m was used to further reduce, and cancel, part of the Credit Facilities.

In December 2019, the Company agreed an amendment to the Credit Facilities which included:

i) The deferral of testing covenants at December 2019; and
ii) The agreement to waive any potential covenant breaches and defaults arising as a result of the prior year adjustments.

Subsequently, between January and May 2020, the Company agreed amendments to the Credit Facilities which included further deferrals of covenant testing and the reporting of such testing.

Following discussions with the lenders of the RCF, the Company and the lenders agreed on 26 June 2020 to a revised financing structure. The key elements of the new facilities are a reduced RCF of £30.0m (previously £78.2m) and a Receivables Finance Facility ("RFF") (invoice discounting) of a maximum of £73.2m, and the removal of the overdraft facility of £25.0m. The refinancing has been accounted for as a substantial modification.

The key terms of the new facilities are below, with other terms of the RCF remaining in place:
i) Expiry date July 2022
ii) Repayment and cancellation of RCF commitments by £10.0m on 31 July 2020;
iii) The RFF can initially be draw down against the receivables of the Recruitment GB division and Northern Ireland part of the Recruitment Ireland division;
iv) Interest on the RFF accruing at 3.50% plus Bank of England base rate; and
v) Minimum EBITDA and minimum liquidity covenants until a return to minimum leverage, interest and asset cover covenants in January 2022.
vi) No dividends to be declared by the Company until July 2022

On 31 July 2020, the RCF was reduced by £10.0m from £30.0m to £20.0m. On 8 October 2020, following the removal of two customers from the RFF, the maximum availability on the RFF was reduced by £5.0m from £73.2m to £68.2m.

As at the 31 December 2020 the Group also had available a separate £25.0m uncommitted, non-recourse, Receivables Financing Facility against certain customer receivables, and a number of separate Customer Financing arrangements whereby specific customer invoices are settled in advance of their normal settlement date. The balance funded under this Receivables Financing Facility at 31 December 2020 was £24.3m (2019: £25.7m) and the value of invoices funded under the Customer Financing arrangements was £43.0m (2019: £35.1m). Costs incurred in relation to these arrangements are charged to profit and loss as finance charges when incurred.

On 10 June 2021, the entered into a new Receivables Financing Agreement ("RFA") to replace the existing Group funding arrangements. The RFA contained certain requirements to be met before completion, the most significant of which was that the Company raise new equity capital of at least £40.0m. This condition was satisfied and the RFA became effective on 10 June 2021. The key terms of the new facility, which is provided jointly by RBS Invoice Finance Limited, ABN AMRO Asset Based Finance N.V., UK Branch and Leumi ABL Limited, are set out below:

I. Maximum receivables financing facility of £90.0m over a four-and-a-half-year term, with a one-year extension option;
II. An Accordion option of up to an additional £15.0m, subject to lender approval;
III. Security on all of the assets and undertakings of the Company and certain subsidiary undertakings;
IV. Interest accruing at 2.75% over SONIA, with a margin ratchet downward to 2.0%, dependent upon the Group's leverage reducing to 3.00x;
V. A non-utilisation fee of 0.35% of the margin
VI. Maximum net debt (averaged over a rolling three months) to EBITDA leverage covenant commencing at 5.95x followed by a gradual reduction to 4.0x by October 2023
VIII. Minimum interest cover covenant of 2.25x the last twelve months EBITDA to finance charges

The new facility enabled the cancellation of the existing facilities, comprising the RCF of £20.0m and the RFF of £68.2m and also the non-recourse Receivables Purchase Facility of £25.0m.

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation.

## 13 Share capital

| | **2020 £m** | 2019 £m |
|---|---|---|
| **Allotted and issued** | | |
| 68,930,486 ordinary 10p shares | **6.9** | 6.9 |

| | **2020 Number** | 2019 Number |
|---|---|---|
| Shares issued and fully paid at the beginning of the year | **68,930,486** | 27,944,389 |
| Shares issued during the year | – | 40,986,097 |
| **Shares issued and fully paid at the end of the year** | **68,930,486** | 68,930,486 |

All ordinary shares have the same rights and there are no restrictions on the distribution of dividends or repayment of capital with the exception of the 1,140,400 shares held at 31 December 2020 (2019: 1,140,400) by the Employee Benefit Trust where the right to dividends has been waived.

On 15 July 2019, a total of 40,986,097 ordinary 10p shares were issued by the Company, resulting in a total of 68,930,486 ordinary 10p shares being in issue.

The Group announced a proposed Placing, Subscription and Open Offer (the "Fundraise") on 21 May 2021 following conditional agreement of the debt refinancing the previous day. The Fundraise comprised the following elements:

- A total of 87,249,500 new ordinary shares of 10 pence each placed at a price of 50 pence per share (the "Issue Price") to certain existing shareholders and new institutional investors;
- A total of 750,500 new ordinary shares of 10 pence each to certain Directors and employees of the Group at the issue price, and;
- An open offer to existing shareholders for 10 shares for every 78 ordinary shares held, for a total of 8,837,242 new ordinary shares of 10 pence each at the issue price.

## 14 Cash flows from operating activities – consolidated

### *Reconciliation of loss before taxation to net cash inflow from operating activities*

| | **2020**<br>**£m** | 2019<br>Restated<br>£m |
|---|---|---|
| Loss before taxation from: | | |
| Continuing operations | **(51.6)** | (44.4) |
| Discontinued operations | **(5.0)** | (3.7) |
| | **(56.6)** | (48.1) |
| Adjustments for: | | |
| Finance costs | **7.3** | 8.2 |
| Depreciation and amortisation – underlying | **7.4** | 7.3 |
| Depreciation, loss on disposal and amortisation – non-underlying | **9.2** | 10.9 |
| Loss on disposal of property, plant and equipment – discontinued operations | **0.8** | – |
| Impairment of goodwill | **35.3** | 22.3 |
| **Cash generated before changes in working capital and share options** | **3.4** | 0.6 |
| Change in trade and other receivables | **27.6** | 24.6 |
| Change in trade, other payables and provisions | **34.6** | (23.8) |
| Impact of foreign exchange loss on operating activities | **0.1** | – |
| **Cash generated from operations** | **65.7** | 1.4 |
| Employee equity-settled share options | **0.1** | 0.2 |
| **Net cash inflow from operating activities** | **65.8** | 1.6 |

### *Movement in net debt*

| | **2020**<br>**£m** | 2019<br>£m |
|---|---|---|
| **Net debt at 1 January (excluding transaction fees)** | **(67.9)** | (74.2) |
| Loan repayments | **58.1** | 1.9 |
| Drawdown from Receivables Finance Facility | **(43.0)** | – |
| Reduction in Receivables Finance Facility | **29.7** | – |
| Lease payments, additions, disposals and interest | **2.9** | 2.0 |
| Change in cash and cash equivalents | **5.9** | 2.4 |
| **Net debt at 31 December (excluding transaction fees)** | **(14.3)** | (67.9) |
| Represented by: | | |
| Cash and cash equivalents (note 11) | **24.5** | 25.0 |
| Current borrowings (note 12) | **(13.0)** | (6.4) |
| Lease liabilities (note 10) | **(5.5)** | (8.4) |
| Non-current borrowings (note 12) | **(20.0)** | (78.1) |
| **Net debt including transaction fees** | **(14.0)** | (67.9) |
| Transaction fees (unamortised balance) | **(0.3)** | – |
| **Net debt at 31 December (excluding transaction fees)** | **(14.3)** | (67.9) |

The movements in net debt, excluding transaction fees, can be further summarised as follows:

| | Overdrafts<br>£m | Lease liabilities<br>£m | Revolving credit facility<br>£m | Receivables Finance Facility<br>£m | Movements from financing activities<br>£m | Cash<br>£m | Total<br>£m |
|---|---|---|---|---|---|---|---|
| Net debt as at 1 January 2019 | **–** | **(10.4)** | **(80.0)** | **–** | **(90.4)** | **16.2** | (74.2) |
| Cash flows during the year | (6.4) | 3.2 | 1.9 | – | (1.3) | 8.8 | 7.5 |
| Non-cash movements in leases | – | (1.2) | – | – | (1.2) | – | (1.2) |
| **Net debt at 31 December 2019** | **(6.4)** | **(8.4)** | **(78.1)** | **–** | **(92.9)** | **25.0** | **(67.9)** |
| Cash flows during the year | 6.4 | 3.1 | 58.1 | (13.3) | 54.3 | (0.5) | 53.8 |
| Non-cash movements in leases | – | (0.2) | – | – | (0.2) | – | (0.2) |
| **Net debt at 31 December 2020** | **–** | **(5.5)** | **(20.0)** | **(13.3)** | **(38.8)** | **24.5** | **(14.3)** |

## 15 Changes in accounting policies

There were no new accounting pronouncements requiring adoption in the year and no changes to accounting policies.

## 16 Post balance sheet events

With the exception of the following, there were no events not disclosed elsewhere, between the balance sheet date of 31 December 2020 and the approval of these accounts on 21 June 2021, that are required to be brought to the attention of shareholders:

A number of Board changes occurred after the balance sheet date, as disclosed in the Chairman's Statement.

On 20 May 2021 the Company, and certain subsidiary undertakings, entered into a new Receivables Financing Agreement ("RFA") to replace the existing Group funding arrangements. The RFA contained certain pre-conditions before completion, the most significant of which was that the Company raise new equity capital of at least £40.0m. On 9 June 2021 the Shareholders approved the Fundraise at a General Meeting and on the following day, 96,837,242 new ordinary shares were admitted to trading on AIM.

Upon confirmation, on 10 June 2021, that the Fundraise had raised over £40.0m, the Group formally entered into the new RFA and, as a result, the existing debt, comprising the RCF, RFF and non-recourse Receivable Purchase Facility, were settled.

Further details of the refinancing and Fundraise are provided in the Finance Review and in notes 12 and 13.