H1 2022 Interim results

Albert Ellis, CEO

Daniel Quint, CFO

Staffline Group PLC

August 2022

A leading national recruitment and training provider

c. 38,000 Temp workers

c. 400 On-sites

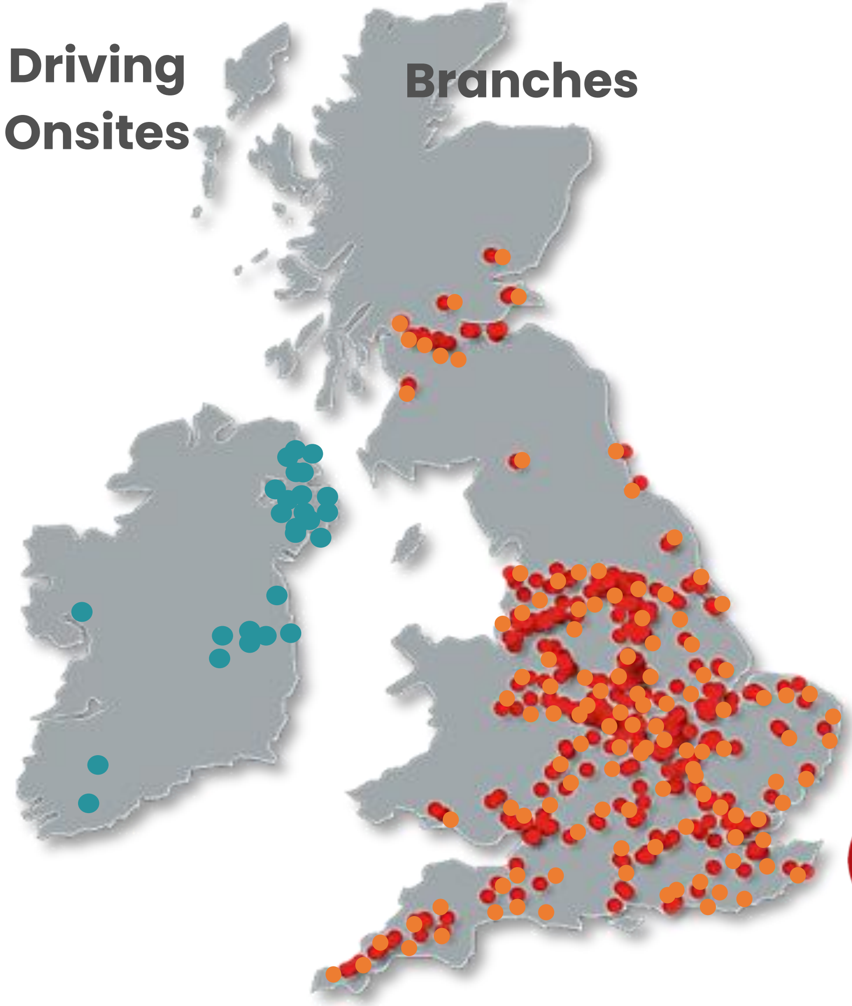
c. 45 Driving Onsites

c. 30 Branches

c. 15,000 Learners

54 Prisons

Staffline (Ireland)



Staffline

DatumRPO

Omega

Brightwork Recruitment

PeoplePlus skills for growth

Locations key:
- *- Recruitment GB*
- *- PeoplePlus*
- *- Recruitment Ireland*

Highlights

- Trading in line with expectations
- Strong growth in -
  - Permanent hiring, fees up 113%
  - Ireland, operating profit up 25.0%
  - RPO, Staffline's managed service (Datum)
- Gross profit up 2.3%, perm fees increase to 10% of Recruitment gross profit (2021: 5%)
- Successful implementation of £60m (revenue per annum) BMW contract
- Restart successfully mobilised and on track, with operating profit expected in H2
- PeoplePlus awarded new £15m contract (Justice)
- Investment in future growth; headcount in recruitment up 8%

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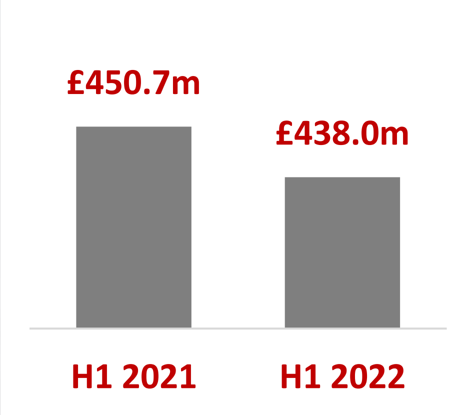
H1 2022 Financials

Daniel Quint, CFO

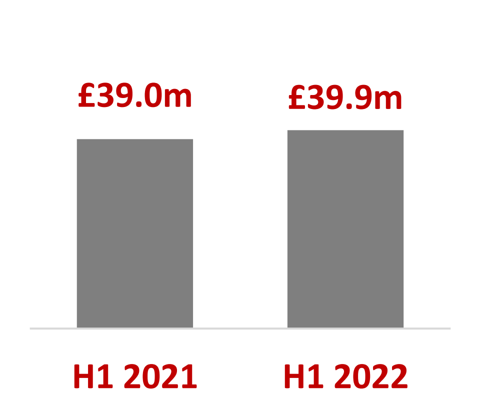
Staffline Group PLC

Revenue and profits

Revenue
-2.8%



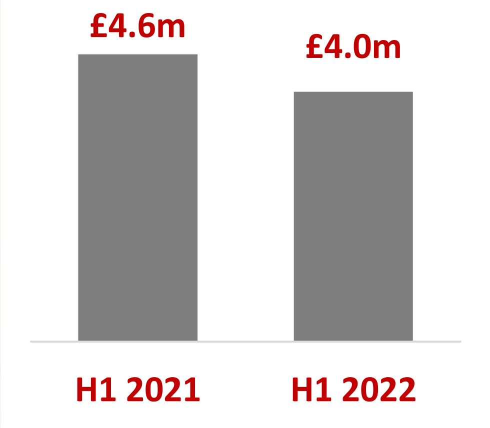
Gross profit
+2.3%



Gross margin

8.7% → 9.1%

Underlying operating profit*
-13.0%



Gross profit conversion to operating profit

11.8% → 10.0%

- Revenue: Lower working hours in blue collar
- Un-seasonally strong comparators in Q1 2021 (lockdown)
- Exit from low margin contracts
- Gross Profit: growing perm /white collar
- Gross margin increased to 9.1%
- Costs

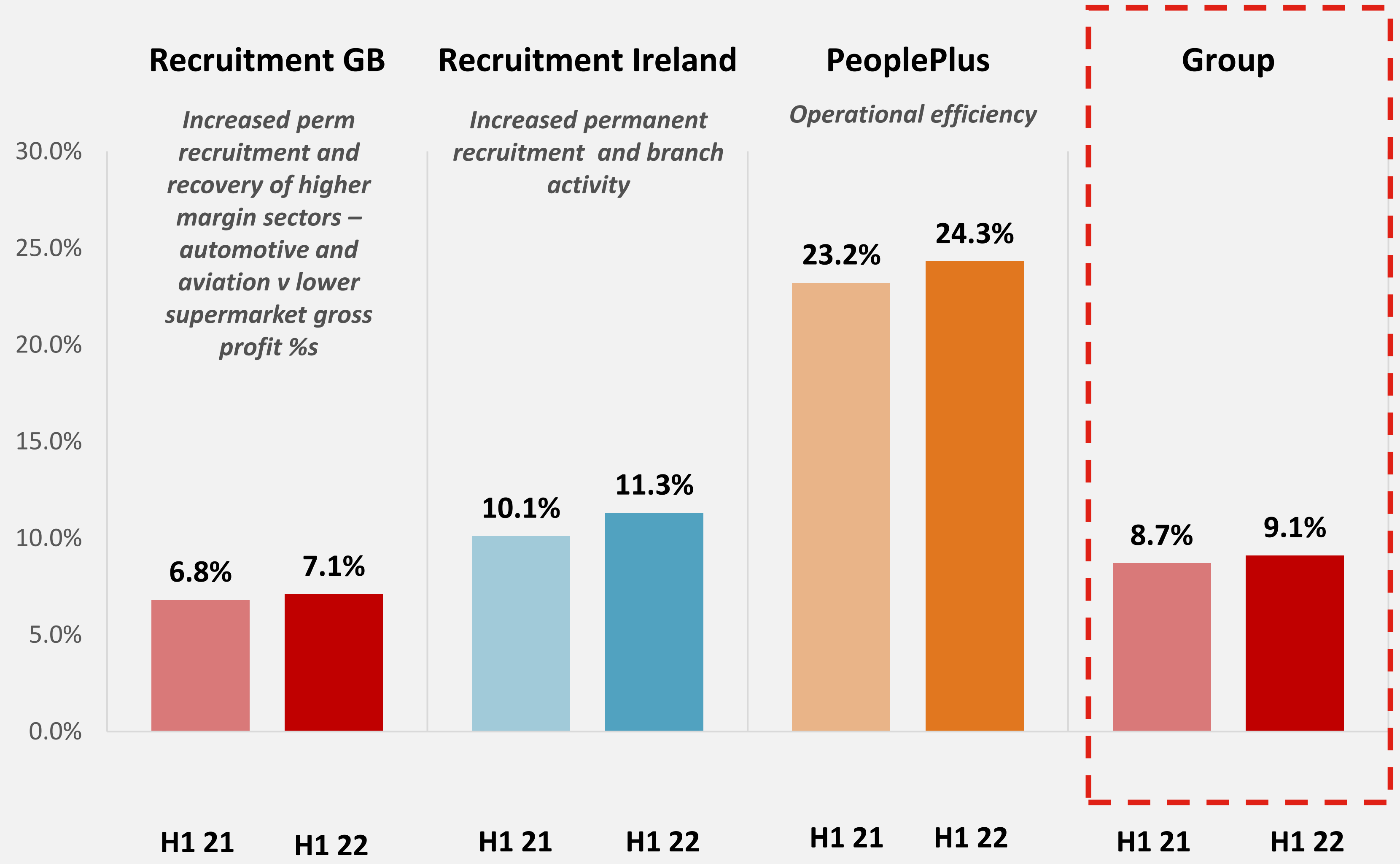
  Investment in headcount c.£1m

  Omicron £0.3m
- Revenues and profit from Restart deferred into H2

Notes:

**Underlying operating profit before amortisation of intangible assets arising on business combinations.*

Increase in gross profit margins across all divisions

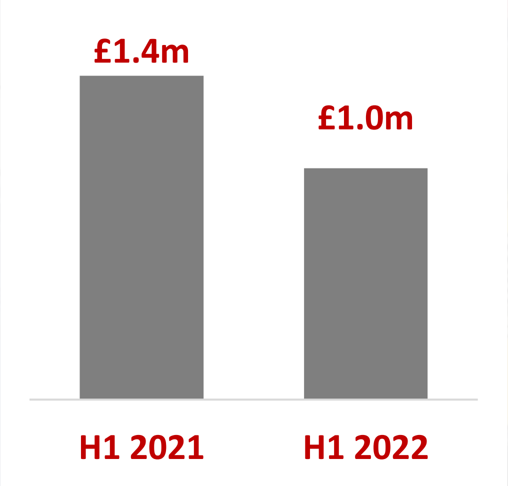


- **Change in mix, lower hours from low margin supermarkets and food production**
- **Strategy to increase permanent recruitment succeeding**
- **Job market for white collar positions strong**
- **Like-for-like rise in underlying margin per hour despite increase in absolute pay (level)**
- **PeoplePlus; cost of sales reductions in Skills combined with rise in higher margin digital services**

Finance costs, EBITDA and net debt

Strong trading cashflow and balance sheet leading to reduced interest costs

Finance costs*
Improved by 28.6%



EBITDA
-£0.1m

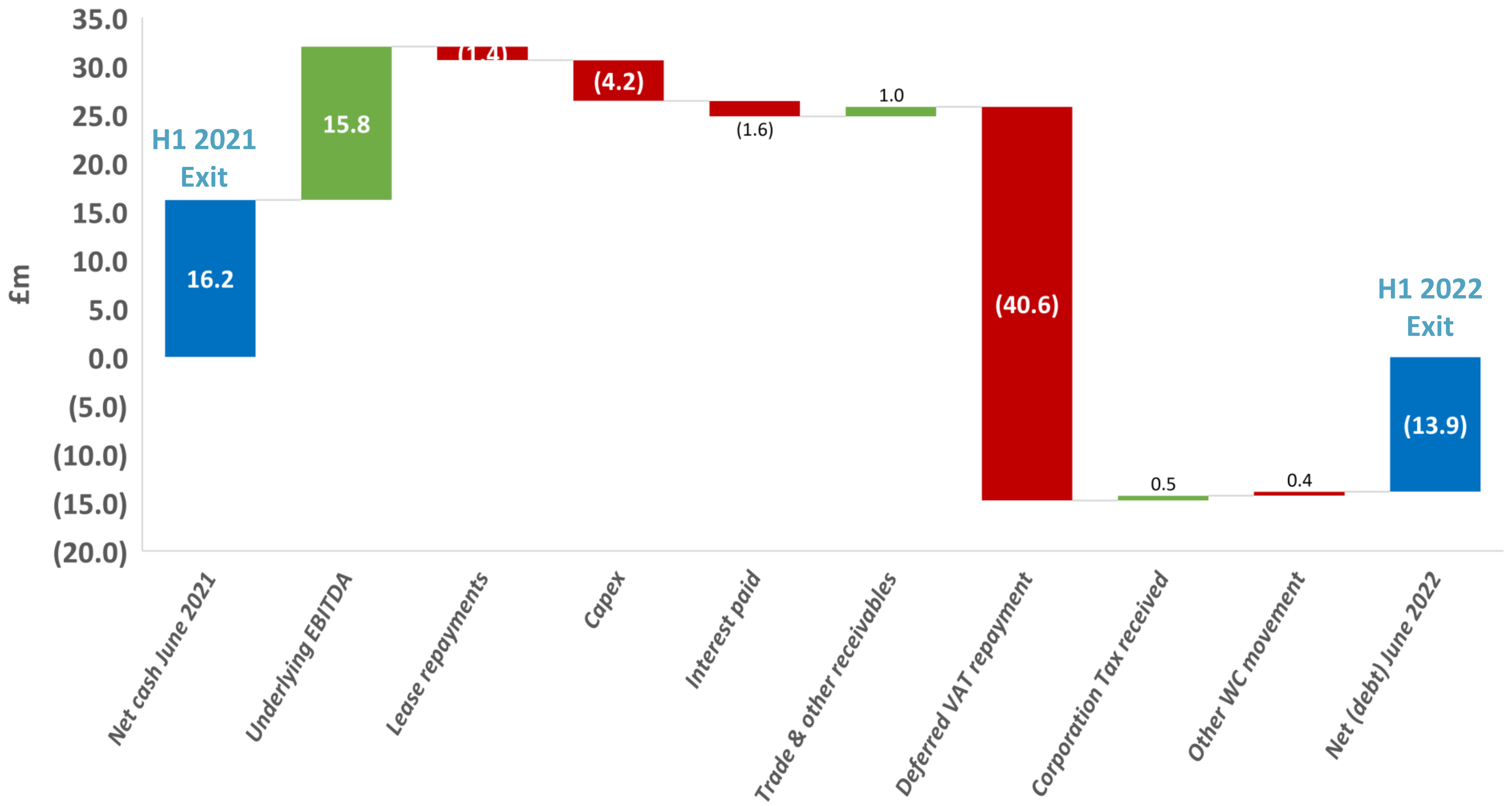
Net debt**
Improved by £10.5m

- Reduced interest costs from:
  - improved margin agreed with new lenders
  - robust trading cash flow
  - Tight working capital management
- Net debt:
  - c.£40m deferred VAT relief repaid in full resulting in c.£10m improvement in underlying net debt
  - c.£25m better than plan forecast at time of equity raise

Notes:
**Excludes non-cash items*
***Presented on an IFRS16 basis, which includes £4.2m of lease liabilities (2021: £4.7m), as well as also adjusting prior year to include unpaid COVID-19 related deferred VAT as debt.*

Net (debt)/cash bridge 30 June 2021 – 30 June 2022

c.£10m net cash generated after adjusting for payment of c. £40m deferred VAT



- £15.8m year-on-year Underlying EBITDA
- £(40.6)m of Deferred VAT repayments
- £(1.6)m of finance costs, significantly lower than prior period
- Sustained tight cash collections
- Further small corporation tax reclaim

Notes:

**Presented on an IFRS16 basis, which includes lease liabilities of £4.2m (2021: £4.7m).*

Financing head room, covenants, and interest rate hedge

Significant facilities and covenant headroom

- **Facilities headroom of £46.4m**
  - Cash of £12.1m
  - Unutilised Receivables Finance of £34.1m

- **Leverage @ 0.5x EBITDA**
  - Average net debt over rolling 3 months to Underlying EBITDA (IAS17)
  - Current covenant at 5.25x, reducing to 4.00x by October 2023

- **Interest cover @ 7.0x**
  - Underlying EBITDA (IAS17) over Finance costs over the last 12 months
  - 2.25x minimum

Interest rate cap in place hedging approximately 2/3 of interest rate exposure over 1.00% SONIA*

- **Significant headroom on facilities**
- **Good headroom on covenants**
- **Secure and resilient balance sheet**

**Sterling Overnight Interbank Average Rate*

H1 ➔ H2 (2022) incremental revenues and operating profit

- **One off Omicron related costs in Q1 (Recruitment GB)**
  - SSP* & absence costs, c£0.3m as a result of COVID-19 Omicron variant

- **BMW (Recruitment GB)**
  - Implementation costs incurred in H1 are one-off
  - H2 will benefit from operating profit for full 6 months
  - £60m revenue per annum, 3 year contract with option for 2 year extension

- **Restart (PeoplePlus)**
  - Operating profit stream commencing H2 (min £0.5m)

- **H2 standard seasonal peak uplift**
  - Traditional H2 uplift from seasonal peak preparation, with additional benefit of football World Cup this year

- **Organic market share growth**
  - Seeing organic growth opportunities in large existing Recruitment GB customers

*Statutory Sickness Pay

Operational review

Albert Ellis, CEO

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Macro

- Consumer demand affecting retail, online distribution and premium brands, however, ***Staffline focused on scale and volume opportunities, market share gains and resilient or growing sectors***

- Customers battling rising costs and resisting inflation, ***enabling deeper collaboration with customers to increase productivity***

- Aviation, manufacturing and automotive sectors still in recovery mode but ***should ease in coming months***

- Labour shortages and associated costs but there is some evidence ***this is easing too***

- Buoyant jobs market, with record vacancies offsetting lower demand for skills & training

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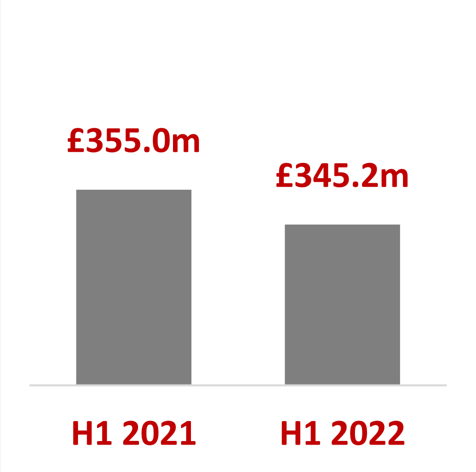
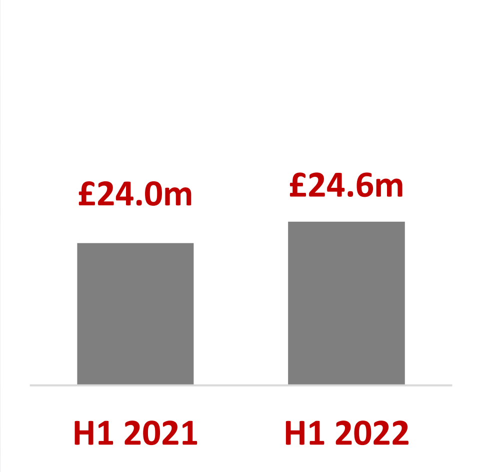
Recruitment GB H1 2022 results

Revenue
-2.8%



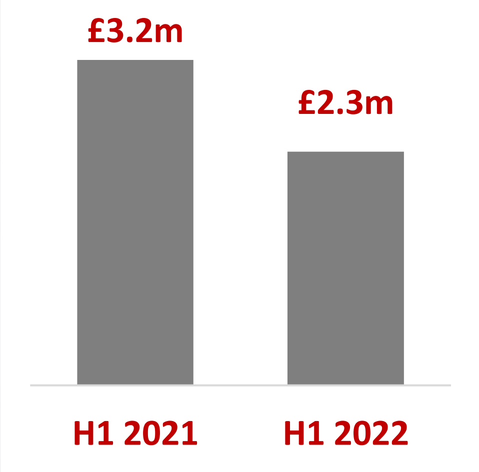
Gross profit
+2.5%



Gross margin

6.8% → 7.1%

Underlying operating profit
-28.1%



Gross profit conversion to operating profit

13.3% → 9.3%

- Change in revenue mix – lower revenues from blue-collar
- Perm recruitment and higher margins lifting gross profit
- One-off Omicron costs
- Decrease in operating profit from investment in fee-earners; c.£1m
  - Perm teams
  - Branch network
  - Fulfilment & BMW
- “Flight to quality”
- Gross profit per fee earner of £36.6k (2021: £40.0k)

Expanding market share and winning new accounts

Customers

H1 2022

BMW – 1,800 workers transferred across in May, cautious approach to profit recognition

VINCI construction – strong growth from Esso Pipeline

Pipeline of new RPO opportunities

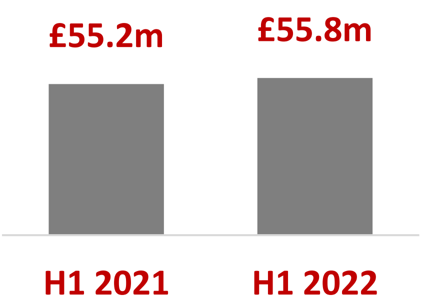
Organic growth at existing food and supermarket customers

Strategy to increase permanent hiring succeeding across the business

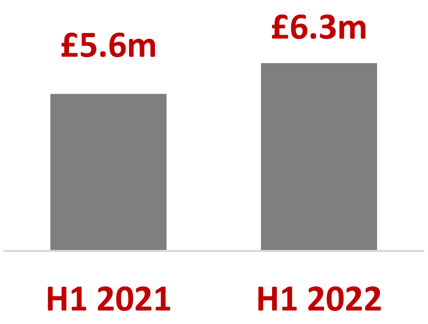
Leveraging the strong demand in “Defence” related supply chain for engineers (Omega Resourcing)

Recruitment Ireland H1 2022 results

Revenue
+1.1%

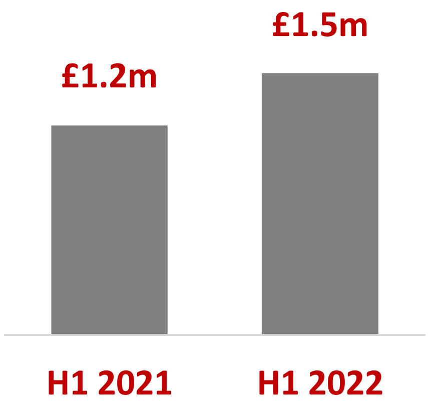


Gross profit
+10.7%



Gross margin
10.2% → 11.3%

Underlying operating profit
+25.0%

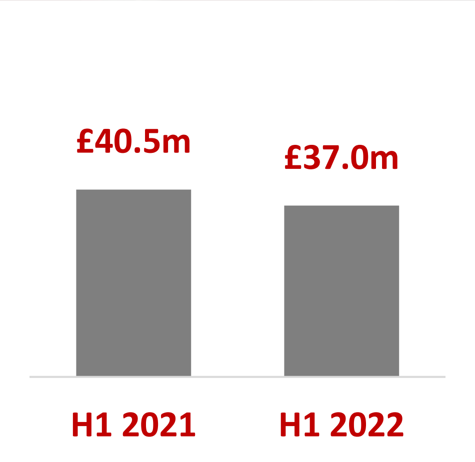


Gross profit conversion to operating profit
21.4%→ 23.8%

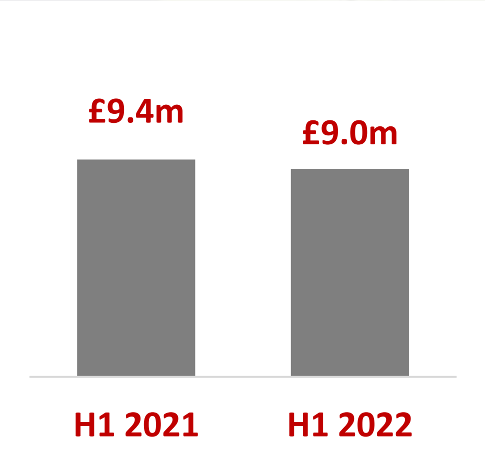
- Change in mix – lower volumes in blue-collar
- Strong demand for white-collar
- Record permanent fees driving up GP and margins
- Higher exposure to resilient public sector
- First executive search fees
- Tight control of costs
- Rep of Ireland branch investment delayed into H2
- Gross profit per fee earner of £56.7k (2021: £59.9k)

PeoplePlus H1 2022 results

Revenue
-8.6%

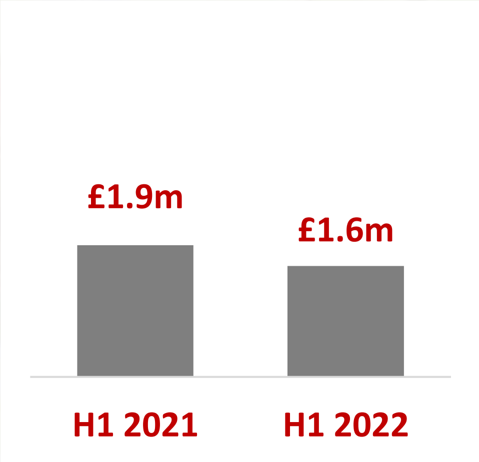


Gross profit
-4.3%



Gross margin
23.2% → 24.3%

Underlying operating profit
-15.8%



Gross profit conversion to operating profit
20.2%→ 17.8%

- Underlying modest growth on "like-for-like" basis (exc. contract end in H1 2021)
- Skills division downsized due to strong jobs market
- All other services (employability, prisons, digital) tracking in line
- Restart profit not yet recognised
- MoJ Youth Offender bid win, £15m over 7 years (subject to contract)
- Revenue per employee of £27.9k (2021: £30.7k)

Outlook

Albert Ellis, CEO

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Group Outlook

- Board expects trading to be in line with expectations for FY 2022
- Second half weighted revenue and operating profit expected:
  - BMW Group: full 6 months of revenues and profits
  - Restart: First operating profit recognised in contract
  - Organic growth in Q2 / Q3 in selected large customers
  - Reopened sectors: Aviation & Auto steadily improving
  - Seasonally higher second half due to Christmas peak and prospect of FIFA World Cup boost to spending
- Subject to adverse changes in macroeconomic headwinds – inflation, cost of living challenges, global supply chain issues

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Appendices

H1 2022 Results

Divisional performance

	Recruitment GB	Recruitment Ireland	PeoplePlus	Group costs	**Total Group**	Recruitment GB	Recruitment Ireland	PeoplePlus	Group costs	**Total Group**
	2022	2022	2022	2022	**2022**	2021	2021	2021	2021	**2021**
	£m	£m	£m	£m	**£m**	£m	£m	£m	£m	**£m**
Revenue	345.2	55.8	37.0	-	**438.0**	355.0	55.2	40.5	-	**450.7**
Gross profit	24.6	6.3	9.0	-	**39.9**	24.0	5.6	9.4	-	**39.0**
Gross profit margin	*7.1%*	*11.3%*	*24.3%*	-	***9.1%***	*6.8%*	*10.1%*	*23.2%*	-	***8.7%***
Underlying operating profit	2.3	1.5	1.6	(1.4)	**4.0**	3.2	1.2	1.9	(1.7)	**4.6**
Operating profit margin	*0.7%*	*2.7%*	*4.3%*	-	***0.9%***	*0.9%*	*2.2%*	*4.7%*	-	***1.0%***
Operating profit as % of gross profit	*9.3%*	*23.8%*	*17.8%*	-	***10.0%***	*13.3%*	*21.4%*	*20.2%*	-	***6.4%***

Balance sheet as at 30 June 2022

	June 2022 £'m	June 2021 £'m	December 2021 £'m
Assets: Non-current			
Goodwill, intangibles, PPE	81.1	88.6	84.1
Deferred tax asset	3.6	3.7	4.6
	84.7	**92.3**	**88.7**
Assets: Current			
Trade and other receivables	116.8	117.7	116.2
Current tax asset	-	0.4	0.6
Derivative financial instrument	1.8	-	0.5
Cash	12.6	29.2	29.8
Total assets	**215.9**	**239.6**	**235.8**
Liabilities: Current			
Trade and other payables	114.7	153.6	134.3
Borrowings	22.3	8.3	22.9
Other liabilities and provisions	2.3	3.1	2.7
	139.3	**165.0**	**159.9**
Liabilities: Non-current			
Other liabilities and provisions	6.5	8.2	7.7
Total liabilities	**145.8**	**173.2**	**167.6**
Equity			
Share capital, premium, own shares	126.0	124.2	124.1
Profit and loss account	(55.9)	(57.8)	(55.9)
Total equity	**70.1**	**66.4**	**68.2**
Total equity and liabilities	**215.9**	**239.6**	**235.8**

Cashflow for the period ended 30 June 2022

	June 2022 £'m	June 2021 £'m	December 2021 £'m
Loss before taxation (including discontinued operations)	**(1.0)**	**(0.8)**	**(0.5)**
Add back: Finance costs, depreciation, amortisation	8.1	8.0	17.0
Cash generated before movements in working capital	**7.1**	**7.2**	**16.5**
Change in receivables	(0.8)	(15.5)	(12.2)
Change in payables and provisions	(20.1)	(9.1)	(33.1)
Share options	0.2	-	0.1
Cash generated from operations	**(13.6)**	**(17.4)**	**(28.7)**
Tax	0.6	5.9	5.8
Capex	(1.8)	(1.9)	(4.5)
New loans, reduction in Receivables Finance Facility, loan repayments	(0.6)	(26.1)	(10.1)
Principal repayment of lease liabilities	(0.8)	(0.8)	(1.7)
Interest paid	(1.0)	(1.4)	(1.9)
Proceeds from the issue of share capital	-	46.4	46.4
Cash flows from financing activities	**(3.6)**	**22.1**	**34.0**
Net change in cash and cash equivalents	**(17.2)**	**4.7**	**5.3**
Cash at beginning of the year	29.8	24.5	24.5
Cash at end of the year	**12.6**	**29.2**	**29.8**

Significant Shareholders

Top 10 represents 86.67% of shares in issue

Top 10 shareholders as at 14 June 2022	%
Henry Spain Investment Services	**15.94**
HRNetGroup	**14.47**
Schroder Investment Management	**10.97**
Gresham House Asset Management	**10.26**
Fidelity International	**9.59**
Lombard Odier Investment Managers	**7.06**
Aberdeen Standard Investments	**6.86**
Hargreaves Lansdown Stockbrokers	**4.54**
Interactive Investor	**3.92**
Teviot Partners	**3.06**

Financing - covenants

- **Interest margin accruing at 2.75% over SONIA**
  - ✓ with a margin ratchet downward to 2.0%, dependent upon the Group's leverage reducing to 3.00 x Underlying EBITDA
  - ✓ A non-utilisation fee of 35% of the margin

- **Maximum leverage covenant – average net debt over rolling 3 months to Underlying EBITDA**
  - ✓ Commencing at 5.95x Underlying EBITDA
  - ✓ Followed by a gradual reduction to 4.0x Underlying EBITDA by October 2023

- **Minimum interest cover covenant**
  - ✓ 2.25x the last twelve months Underlying EBITDA to finance charges

**Sterling Overnight Interbank Average Rate*

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