HD **Hays plc Trading Update for Quarter Ending 31 December 2013 Conference Call - Final**

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OPERATOR: Hello and welcome to today's Hays plc trading update. (Operator Instructions). I will now hand you over to David Walker, Head of Investor Relations. David, please begin.

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DAVID WALKER, HEAD OF IR, HAYS PLC: Yes, thanks. Morning, everyone, and welcome to the Hays' second quarter 2014 trading update conference call. I'm David Walker, Head of Investor Relations, and I'm here with Paul Venables, the **Group** Finance Director of Hays.

Before we start the formal business of the call, I'd like to cover some legal formalities. This conference call is being recorded and the recording may be accessed using the number and access code provided in the press release.

You should be aware that the discussions may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. There are risk factors that could cause actual results to differ materially from those expressed in or implied by such statements.

Hays disclaims any intention or obligation to revise or update any forward-looking statements that may be made during this conference call, regardless of whether those statements are affected as a result of new information, future events or otherwise. I'll now hand you over to Paul.

PAUL VENABLES, **GROUP** FINANCE DIRECTOR, HAYS PLC: Thank you, David. Good morning, everybody, and thank you for joining us. I hope you've had an opportunity to read the statement we released this morning.

I will summarize the key themes coming out of the results and then discuss the regional performances in more detail before we take your questions. As usual, all growth numbers I give for the quarter will be on a like-for-like basis versus the prior year.

We've delivered another solid performance in the second quarter, with **Group** net fees increasing by 3%. We continued to see market conditions improve in several parts of the **Group** as the quarter progressed, especially in the UK, where we delivered a strong performance with growth in all regions and all specialisms, and growth accelerated in the quarter.

17 countries around the **Group** delivered net fee growth of 10% or more, and 6 countries achieved record monthly net fee performances, including businesses such as Germany, Russia and Japan.

Net fees in both our temp and perm businesses increased, with the perm outperforming temp for the first quarter since Q4 FY 2011. In temp, which accounted for 60% of the **Group**, net fees increased by 3% and the underlying temporary margin was broadly stable. In perm, growth accelerated to 4%, the highest level of perm growth we've seen in almost two years, reflecting improved client and candidate confidence in several countries, especially in the UK, where perm net fees increased by 17%.

Throughout the quarter, we continued to focus on consultant productivity and invested selectively in markets where we saw clear opportunities for growth. Overall, **Group** consultant headcount was flat in the quarter, but was up 2% versus the same time last year.

I will now comment on the performances of each division in a little more detail.

Asia Pacific; in our Asia Pacific division, which accounted for 24% of the Group, net fees decreased by 9%. Net fees decreased by 15% in Australia and New Zealand and overall market conditions remain challenging, with no signs of improvement during the quarter.

Whilst our temp business decreased by 10%, it has now been stable for nine months and represents 70% of our ANZ business. Our perm business decreased by 25%.

In New South Wales and Victoria, which together accounted for 51% of our Australian business, net fees decreased by 9%, although they were broadly sequentially stable.

In the resource-focused states of Western Australia and Queensland, which together accounted for 31% of our Australian business, net fees decreased by 24% with continued tough conditions in our resource and mining business, where net fees were 49% lower and are now down 67% from peak levels.

Reflecting the market conditions in Australia and New Zealand as a whole, our headcount was down 4% during the quarter and down 7% year on year.

As we discussed in detail at the prelims, prevailing rates of currency exchange continue to represent a significant sensitivity for the reported performance of our Australian business. As previously disclosed, for each 1 cent movement in the average rate of exchange between Aussie dollar and sterling, we estimate an impact on reporting net fees of GBP1.1 million and on reported operating profit of GBP0.45 million.

Asia, which accounted for 21% of the division, delivered a superb performance, with net fee growth of 28%. Japan delivered excellent net fee growth of 28% including an all-time record net fee performance in December. And Singapore, Hong Kong and Malaysia each delivered net fee growth of over 30%. We also achieved another all-time monthly fee record in China during the quarter.

Consultant headcount in Asia was up 4% in the quarter and up 13% year on year, so taken together with Australia and New Zealand consultant headcount, the division as a whole was down 2% in the quarter and down 1% year on year.

Continental Europe and the Rest of the World; in CERoW, our largest division, which represented 42% of the Group, we delivered solid net fee performance of 5%. In Germany, net fees increased by 5% and the business again delivered an all-time record performance in October.

Our newer specialisms delivered strong growth, with accounting and finance up 29% and construction and property, sales and marketing and legal all growing by more than 10%. Net fees in IT and engineering were up 1%. Our perm business, which represented 11% of Germany's net fees, delivered further excellent growth of 22%.

Net fees increased by 7% in the rest of the division. Within this, 11 countries delivered net fee growth of 10% or more, including three record monthly net fee performances from businesses such as Russia, where fees increased by 35%, Mexico and Chile.

In France, net fees increased by 3% despite continued difficult market conditions in that country. In Canada, we delivered net fee growth of 5%, despite a slowdown in the construction and property sector.

There were signs of improvements in markets where conditions have been difficult for some time, especially in Spain, where net fees increased by 18%.

Finally, three countries recorded net fee declines, including Brazil, where fees decreased by 34%.

Consultant headcount in this division was up 2% in the quarter, but down 1% year on year. And during the quarter we opened an office in Winnipeg, our sixth Canadian office.

UK and Ireland; in our UK and Ireland division, which represented 34% of the Group, we delivered strong net fee growth of 10%. We saw accelerating growth in perm, where net fees increased by 17%, the highest growth for six years, and net fees in temp increased by 5%.

The growth in perm was driven by improving candidate and client confidence and we saw continued broad-based improvement in activity levels in all regions and all specialisms throughout the quarter, including the East of England, London, Midlands, North West and Scotland, which all grew by more than 10%. Ireland delivered an excellent performance with net fee growth of 30%.

In our private sector business, which represents 70% of the divisional net fees, growth accelerated to 8%. This was driven by strong growth in our largest specialisms, with net fees in construction and property increasing by 21% and, importantly, net fees in accounting and finance increasing by 8%. We also saw strong growth in IT and office support, both of which also grew by more than 10%.

Our public sector business delivered another quarter of strong growth, with net fees increasing by 13%, driven primarily by continued strong performance in our healthcare and our construction and **property** businesses, where net fees were up 47% and 15% year on year respectively.

Consultant headcount in the UK and Ireland was flat in the quarter, but was up 9% year on year.

Turning to the cash flow and balance sheet. Net debt increased [up to] GBP105 million following the payment of our final dividend of GBP23.5 million in November. Net debt has reduced by about GBP40 million versus the same period last year and we expect net debt to reduce further in the second half of the year.

Finally, on current trading. Our exit rate for the quarter was in line with the quarter as a whole, although several markets are showing clear signs of sustained improvement. We see broad based improvement in the UK and good momentum in Asia, and will continue to invest where we see clear opportunities for profitable net fee growth around the **Group**.

However, we retain our selective approach to managing the business and will maintain a tight focus on cost control around the **Group** to ensure that we continue to maximize our overall profit performance in the second half of the year.

I will now hand you back to the administrator and we'll be happy to take any questions you may have.

Questions and Answers

OPERATOR: (Operator Instructions). Steve Woolf, Numis Securities.

STEVE WOOLF, ANALYST, NUMIS SECURITIES: Just two from me. Firstly, on the UK side, in terms of that regional strength, I'm just wondering what impact there is and concerns of skills shortages may have had and what you saw as the wage trends during that period?

And secondly, just on the selective investments side of things. I was wondering where your thoughts are on headcount as we move through the second half. Thanks.

PAUL VENABLES: Thank you, Steve. I think they're good questions. First of all, on regional strength and skill shortages. I think, other than construction and **property**, it's too early to be talking about skill shortages at this stage. In construction and **property** there's been such a strong rebound, clearly on the back of several weak years, where there hasn't been an increase in apprenticeships, etc. What we're seeing is experienced people in that area are very much in demand.

If I use the example of architects, we've placed more architects in the last six months than we've placed in the previous four years put together. So it doesn't take a lot that architects are in strong demand and there's good wage opportunities for those people if they're prepared to change jobs.

Outside of that, the issue is much more now the start of candidate confidence leading to them looking to change job. To me, standing back, the big change in the UK was that improvement in candidate confidence. Decisions being made quicker, people moving quicker, and the start of things like counter offers from companies trying to hold on to people.

Then what we are seeing is, if a **company** loses somebody, they move to replace them very quickly, so I think all that is positive.

On wage inflation, it's too early to give any real clarity on that. What we are beginning to see, though, as I said earlier, counter offers naturally lead to an increase in wage inflation. And I do think, coming into 2014, it will be a story that wages begin to increase.

Now in construction and **property** that's already there. In areas such as accounting and finance it's too early so far. But I think the good thing here, it's all specialisms and all regions.

STEVE WOOLF: Sure; it's very broad based.

PAUL VENABLES: And then on selective headcount, well that's bound to be the right follow-on question.

In the UK, first of all, remember 60% of our business globally is temp related, so we need to see the return to work. We get pretty good clarity on that within the next two weeks. For example, we're off to Japan next week; I'm in Australia in three weeks' time. We sit down and do a review with the UK; I'm in Germany end of January, all those sorts of things.

Sitting here today, assuming that the return to work is in line with our expectations, the area that will add most headcount in the second half of the year will be in the UK. That's not about what is the level of headcount we need for our business for the next six months. It's really to ensure that we've got sufficient headcount so that, in a year's time, we'll be continuing to grow at 10% or more.

So we are certainly looking to increase our headcount by 5% to 10% in the UK in the second half. Whether we'll be able to achieve that is another question, but that is our target.

Outside of that, in Europe, assume the return to work is okay, it'll be a modest increase. We're still focused on productivity improvement; we think there's a good way to go there. But certainly Germany, we will look to increase headcount in the second half.

In Asia, we expect to increase headcount in Japan, for example, by 10% in the second half; will probably be similar across the whole of Asia. And in Australia, which is clearly the weakest market that we're in at the moment, we're looking to keep headcount flat.

So assuming the return to work's in line with our expectations, assuming the perm activity in January and February is in line with the last couple of months, we're happy with the headcount that we've got, because I think there's enough signs now that we're beginning to see a bottoming in that market. But overall, an acceleration in headcount increase to really support where we expect the business to be in a year's time.

STEVE WOOLF: Perfect. That's great. Thanks, guys.

OPERATOR: Toby Reeks, Morgan Stanley.

TOBY REEKS, ANALYST, MORGAN STANLEY: A couple; when you talk about the Australian market bottoming out, and I think there is some indication that there's a bit more optimism coming into that business, are we talking more about New South Wales and Victoria accelerating, or declines in Western Australia, Queensland becoming less severe?

And then, could you update us on the expectations for the **Group** tax rate this year?

PAUL VENABLES: Yes. I think Australia is two bits. First of all, 70% of our business is temp, that's been stable for nine months, and having 70% of our business in temp is not a normal situation for us to be in. Almost in Australia the boom, 2007, we were 55% perm for example; we've generally been about 50/50. So I think temp sales pretty solid and I think that's a good view on our clients want to spend money; they need to do things.

What they're not looking to do, at the moment, is to increase their permanent headcount, but equally, candidate confidence has been very low. We're just not seeing any sort of normal churn areas, specifically in places like accountancy and finance, for example. So I think the positives in my mind is temp is stable, perm is now a much lower part of our business in Australia. Secondly, things like construction and **property** we actually grew; we grew by 3% in this quarter. We've now been growing for the last six months in construction and **property**.

New South Wales, on its own, has been as flat as a pancake for nine months, and that would definitely be the region that comes out of the downturn first. Resource [in both] Queensland and Western Australia are fairly difficult, actually in resource and mining our business has started to stabilize off very low levels. The business is down by two-thirds, so I think the downsides are much less. There was a little bit of weakness coming into Christmas; I think Christmas came a little bit early. But for those of you that have been on this call for years, we had exactly the same in the UK two, three, four years ago. I don't think that's any sort of surprise.

Clearly, the election has taken place. The business community got the government it wanted; that doesn't mean it will go and do anything on the back of that. Retail sales have been pretty good over the Christmas period, so I think there's enough signs that we're around the bottom in Australia. Clearly, we need to see the return to work. We need to see perm in February and March; I've always discussed with you guys that's quite key. But I think there's enough reasons to believe that we're not far off. Now clearly, if it goes down a bit further we'll adjust the headcount but, at the moment, we're looking to hold headcounts and that's the best guidance.

On **Group** tax rate, we're sitting here on January 9, that's very, very early. Let me kind of close all of the books for the half year, update all of our forecasts, again best done on the back of knowing the return to work for obvious reasons when 60% of your **Group** business is in temp. And at the prelims we'll clearly give guidance on that.

But I guess to help your question, the only really two things that have changed, in my mind, in the last six months is that the UK has clearly got a little bit better and that clearly improves the tax rate, and Australian currency has got quite a bit worse. Those two -- the EPS may well offset each other, so we're sitting here, we don't talk about consensus in December, we will talk about it at the interims, but I don't think we've got any concerns. Fundamentally, our business did well in this quarter and I think we'll show that when we show the interims. But at the interims we'll give you all the detail you want, Toby.

TOBY REEKS: Great, thanks. Can I just quickly follow on, on the Australian mining business, could you give us an idea of the sequential volumes in that business at the moment?

PAUL VENABLES: It's been pretty flat over the last three months.

TOBY REEKS: Flat for three months. Okay, cool. Thank you very much.

PAUL VENABLES: What you see now, if you think about it, is you've got a lot of clients now that are already doing more recruitment themselves. But I think it's pretty flat and certainly, have done a pretty detailed analysis of all of our major clients, the good bit is there's some new business opportunities as well. But that market is going to be tough for a long period to go, I think.

TOBY REEKS: Okay. Thanks very much, guys.

OPERATOR: Graham Brown, [Cantor Fitzgerald].

GRAHAM BROWN, ANALYST, CANACCORD GENUITY: It's Canaccord Genuity. Just a question on the UK construction. I just wondered if you could give us a sense of how that business trended through the quarter. I think, at the end of Q1, you were talking about those key sectors growing at more than 10% and today's number is significantly ahead of that. So I just wondered if you could give us a sense of perhaps an exit rate for that segment?

And then a couple of follow-ons from that. If you looked, maybe you could give us a bit of a sense what the mix is, but if you looked at the proportion of architects within the overall construction and **property** now and compare and contrast that with where that mix was perhaps at the peak of the market? Thanks.

PAUL VENABLES: Graham, that's quite a hard question to answer, I think, on this call. I guess what I can tell you, which gives you a feeling for this, clearly this business is construction and **property**. The construction is the cyclical part of it, the **property** is the defensive part of it. I'm going to say from peak to trough in construction and **property**; we fell by something like between 55% and 60%, that sort of level. And we went from a business, pre downturn, that was about 50% in **property** and about 50% in construction to a business that was 80% in **property** and 20% in construction, because construction stopped.

The second part of it then I think, which I think is worth a little bit of color, in the last quarter it was all about house building. In this quarter the acceleration has not come for us in the house building sector, it's actually come in the **commercial** construction sector. So the really pleasing part of these results across each of the regions when I did my kind of run around with our regional guys a few days ago, is that they're all seeing a real increase in retail development, in some infrastructure investment, in **commercial** construction, etc., and that's definitely accelerated over the last three months.

Why that's important is, clearly, house building can be switched on and switched off pretty quickly; **commercial** projects, as you know, are much more long run. So for me, the pleasing part of it now is that the visibility in that business, our security in that business, is increasing. And what I talked about earlier on increasing our UK headcount, a good slug of that, we've already upped our construction and **property** headcount by 10% in the last six months. It's pretty clear that we need to do that again and a bit more in the next six months.

So architects would be primarily in the construction part of it. We have seen a real pick up, the types of jobs that we saw a big acceleration of were in design; they're in chartered surveyors; they're in architects; they're in planners. And a lot of those, as you know, are the front end of **commercial** projects. So for me, the pleasing part of it is I think we've got a good run to go in construction, and that's clearly partly because we've had difficulties in the last four to five years.

GRAHAM BROWN: Any sense of an exit rate, Paul?

PAUL VENABLES: I don't have the exit rate for an individual specialism in front of me, but clearly -- we had a very strong quarter in that. We had a very strong October, slightly less strong November, very strong December; it's going to be broadly in line with the 21%.

GRAHAM BROWN: Okay. Thank you very much.

OPERATOR: William Vanderpump, UBS.

WILLIAM VANDERPUMP, ANALYST, UBS: Just a couple of questions from me on the UK and your comments around headcount additions, post the return to work. What does that do, if anything, to your previous comments around net fee drop through to profit over the next 12 months?

And secondly, just on that German IT and engineering 1% growth, if you could talk about some of the moving parts there and the prospects of that business into the second half of the year, please?

PAUL VENABLES: Yes, I think they're both good questions. I am absolutely 100% confident with the flow through guidance that we gave and I think you'll see that clearly, the first part of that, when you see the interim results, William. So we gave ourselves more than enough wiggle room to both fabulously have the increase in commission, which is great for our consultants, but secondly, to give us enough wiggle room on headcount.

Remember now I have a fully automated back office, half of which is in India and, therefore, we have little or no incremental cost for any new **transactions** going through us. And of course, we've discussed before, perm is a relatively low level admin cost in our system, so no problem on that. And therefore, that's accepted within the headcount increase.

I said the key on the headcount increase is to make sure that in 12 months' time we're growing by 10% again and that we need the headcount for that. I don't want to be headcount short in six or nine months' time.

I think on Germany it's the spot on question, because the smaller specialisms were great; accounting and finance was great. I think it's a couple of things really, in my mind. One, over the last 6 to 12 months, there has been a switch within our mix of temps with less engineers, the growth in engineering stopped and engineering has been a more difficult specialism for us now for the last 6 to 12 months, so within temp there's been little or no growth in that area. All the growth has come in accounting and finance and IT, and we make a little bit less fee per day, fee per month off those temps, a little bit of a mixture.

And secondly, I think December was impacted by a little bit -- the election was in September but actually, the agreement on the coalition wasn't agreed until the end of November. And as you'll have read in the press, there's lots of discussions about is there going to be a change to temp model, etc. We don't think those will have much of an impact on our business, but I think it just led to a little bit of a hiatus coming into December.

I have no concerns going into the next two quarters. If you take the two quarters together, we grew at 6% in the first six months of the year; I'd expect to grow by 6% or more in the second six months of the year. We need to see the return to work; we'll have a very clear view on that in two weeks. In fact, where it is and then certainly, over the remaining part of the year, we'll need to start to increase headcount again, to have capacity for the following year.

WILLIAM VANDERPUMP: Okay. Thanks; that's very clear. Thank you.

OPERATOR: Paul Checketts, Barclays Capital.

PAUL CHECKETTS, ANALYST, BARCLAYS: Two topics that you've already talked about a bit, but first on the UK please, Paul. On the headcount side, why was it flat this quarter, given such strong growth? And you talked about 5% to 10% growth in the second half, is that 5% level consistent with 10% growth, in the upper end, if things improve further?

And the second question is on Germany. Can you help us out a bit with the mix impact from lower conversion rates from the new specialisms versus IT and engineering, please?

PAUL VENABLES: Right. On the headcount, I don't think it's as binary as that, Paul, because, as you know, one of the things -- the good thing at the moment, certainly in the last quarter, is if somebody leaves a client, the client comes to us. We put some great candidates in front of them. And rather than before, a client saying, you know what, I'm [not] going to use Matt because he's in the room. I liked Matt, but I'm seeing two people next week, I'll wait until I see them.

What we're seeing increasingly is the client saying, we like Matt and we want to make him an offer. And we're also seeing Matt, who might um and ah for a period of time about whether he takes that or not, we're seeing him make that decision quicker. So that, clearly, you don't need much more headcount to deliver.

I think what is clear, though, is the rebound in construction and **property**; the rebound in accounting and finance; the fact that that's moving into perm; the fact that we're confident, as we set out at the Investor Day, that we expect to see reasonable growth in our UK business over the next few years; the fact that we've been very successful in the first six months in converting the improvement in fees that we've had into the bottom line and [those are] a bit more.

I think all of that means that we're confident, we see no negatives on the UK horizon, and what we don't want to be, in 12 months' time, is to turn round and say we're short on headcount. So one of the things I think you can trust with us, if times are tough we move quickly to adjust the headcount, naturally. We do that instinctively. We're very tight on our cost control; that will always be there. But equally, an important part of it is, where the market is good, be aggressive in investing into that.

I think we can meet all the guidance that we've given you on flow through, and I think you'll see the first part when we get to the interims on that. But I think that it is clear, with the way some of the regional growth has come, that we're short of headcount a bit. Now at the moment, we can drive that through greater productivity in our individuals, but you'll get to the point in time where those individuals can't handle all the jobs.

Now clearly, Paul, as you know, I have three to five weeks' visibility. Things can change, and if it does, we'll adjust the plan. But sitting here today, I don't see any positives because every region, every specialism, has grown. We've now gone from 3% to 5% to 8% to 10%, and the sentiment is as good as -- when I joined this business in May 2006 I haven't seen as positive sentiment in the UK in the whole of my time in the business. So we're determined to ensure we've got the headcount.

I don't think there's a direct link between 5% it leads to 10% growth, or 10% leads to that, because we just don't know what the market will be like in a period of time. But do remember whilst the City of London, and we do fairly well in City of London, is a phenomenally competitive marketplace, when you're in the regions we are a very strong player. We have an office footprint in the UK. We have 100 offices. We protected that office footprint in the downturn, and it is going to drive a large part of recovery for our business. We need to make sure we invest in it.

And I think, on Germany, it's not as simple on conversion rates. But if I try to put this another way round. A standard engineer, if we put a standard engineer into our client, their pay [rates] are higher than the standard IT, or qualified accountant, or interim and **group** financial controller, etc., and you guys know the level we pay at in Germany. We've always given you -- a contractor the average salary level is about EUR130,000, EUR140,000. In temp, it's about EUR80,000 to EUR100,000.

But within engineering, it's about 20% higher than it is in IT and accounting and finance together. And you know engineering, over the last year, it's been a much quieter market in line with how we've discussed earlier on about certain companies quite often in the automotive sector.

PAUL CHECKETTS: Thanks. Just one follow-up on the UK; you made some comments there on the competitive environment in London. Do you think the current environment for companies like yours is positive enough that, in some places, we'll be able to put through pricing increases?

PAUL VENABLES: I think there's a big difference, if we're talking City of London, I think there's a big difference in the large financial institutions. But we haven't seen a big pick up in jobs, versus most of our growth has come out of the second tier financial institutions. It's come out of insurance; it's come out of the legal firms; it's come out of the accountancy firms in Central London; it's come out of an uplift in **transaction** services, etc.

I don't think it's a price increase market. I think the issue is always more, and we've had this discussion over the years, that what will tend to happen -- I think for the City of London we're a long way away from a strong recruitment sector in the City of London. It has improved; we grew by 10%. That's great, but there's a long way to go.

You need a sustained improvement for two years where everybody's focused on candidate shortage. And then it's not necessarily a pricing increase in those contracts. What happens is those contracts start to splinter because hiring managers, strong people in financial institutions -- you guys work with some very strong individuals in your business, they'll just say, well, I know that, but I've got to get somebody really good now and we're just going to go external and we're going to hire.

We're a long way away from that. I think that's a few years away from. The good thing is every region is improving; each specialism is improving. Banking was up a couple of percentage points for us. Not big, and I think we've got a period of time for that to run.

PAUL CHECKETTS: Thanks.

OPERATOR: Konrad Zomer, ABN AMRO.

KONRAD ZOMER, ANALYST, ABN AMRO: I would like to come back on the headcount statements in the UK. I'm willing to accept your comments on the flow through, and that you don't want to be short of staff in eight or nine months' time, but it does seem like a fairly rapid change of mind versus your Investor Day, which is only about two months ago. Is that because the market has improved that much in the last two months that you've become more positive in terms of headcount? Because it sounds to me like, from what I hear from the UK market, that you might as well wait another six months, get your productivity up with the existing headcount, and then see what the market looks like then. Or is that too conservative?

PAUL VENABLES: We have pushed -- again, when you see the interims you'll see that we have pushed productivity up in our UK business. So we've delivered a 7% growth one year ago. We delivered further growth in this because the average consultant headcount over the six month period was a little bit less than the headline level.

Absolutely, we've now had two perm surges in the last three months. A perm surge is whatever number you think you're going to -- remember we have the most conservative accounting, we only book perm when somebody starts. What we now see is we see quite an acceleration over a monthly period. Every single week those numbers pick up.

So all of the discussions we have with our clients are positive. We are completely in line with that 75% fall through for the first GBP30 million. Again, when you see the interim results, you'll see why we're so confident on that. And it feels, in the regions at the moment, if we don't increase our headcount over the next six months I think, in one year's time, we'll be short.

So we have always been very good at when it's a mixed market, and it's uncertain, we're exceptionally good at very tight cost control. I would put our record up against any recruitment company in the world in our ability to manage our cost base. I think we've got the best information; we make very fast decisions; we've got some great managers across the globe.

Equally, I think, you get certain points, and I would argue several years ago what we've done in Australia, what we've done in Germany, there are certain points in a market where you get confident, and you know that you need to start to make sure that you'll have an increase. Because of course, one of the things, Konrad, is increasing your headcount is a two-way play. It's how many do you increase and how many do you lose? And the very nature for any recruitment business is the stronger the recruitment market is, then your own consultants get offers themselves from certainly some of the smaller recruiters.

I think, sitting here today, our growth has accelerated; perm went to 17%. We're still massively below where we were in peak. We've never said we'll get back into that space, but I think we have, as we set out at the Investor Day, we have a real opportunity for meaningful, sustainable, growth over a number of years. And we may well find we get to where we'd like to get to quicker than we thought. So sitting here today, we want to increase the headcount.

If that's 5% in the next six months, if it's 10% in the next six months, anything in that sort of range we'll be happy with. So we'll have a bit more productivity. We'll have greater profitability. That will flow through. But we need to make sure we're still going to be, if we exit this year 45% down, or 50% down versus peak, there's still a long way of growth to go. And I want to make sure we've got the headcount in the business to extract that.

KONRAD ZOMER: Okay. So do you think your productivity in the UK will continue to improve, despite the fact that you're going to add the headcount?

PAUL VENABLES: Yes, because I think the market will help that. Remember, productivity is driven by two things, one of which is, if candidates are more confident, if clients are more confident, if decisions are made quicker, I, as an individual, will get a greater portion of the jobs I'm working on converting to fees. There will be less fees that fall away; that drives productivity. And that can be on top of what we're seeing in the regional area, which is much about SMEs coming back and actually doing some hiring for the first time in several years.

KONRAD ZOMER: Okay. Thank you very much.

OPERATOR: Anna Summer, JPMorgan.

ANNA SUMMER, ANALYST, JPMORGAN: My question's actually on France. We've seen some poor PMI data recently, yet you've managed to grow by 3%. Can you give a sense of whether you have seen of that particular weakness? Do you think you are outperforming the market?

PAUL VENABLES: Clearly, we haven't got market data at the moment, but we are delighted with the performance of our French business both at the fee level, but even more at the profit level. I think we've really -- that is a business on which we've driven productivity over the last year. I think 3% is pretty good. Quite frankly, I think if we were at minus 3% or minus 5% I'd be tempted to say that's pretty good.

I think the good thing that we've had this year, we've got construction and property, which is our second largest specialism, which has been weak. But we've done very well in the accounting and finance space now for the last two years and I think, in that space, we have taken some market share. It's not a market that we're going to rapidly increase our headcount. We talked about those markets earlier.

We're looking to keep our headcount flat in France; I think we all have to be concerned about both the economic and the political environment there. But the good news is, it is in a difficult state, but it's been in a difficult state for some time. There's been not a lot of new news. And I think those candidates that are going to move are still looking for jobs. Clients are very cautious; you've got a very restrictive labor market.

We're happy with 3%, but I don't think that's going to go to 10%. So it may well be that those single digits are as good as it's going to get for the next few quarters, but we're very happy with that result.

ANNA SUMMER: Okay. That's great. Thank you.

OPERATOR: Tom Sykes, Deutsche Bank Research.

TOM SYKES, ANALYST, DEUTSCHE BANK RESEARCH: Could you maybe give us a flavor for what the growth has been in temp and perm by public and private sector in the UK, please? If you just disaggregate that a bit.

And also, please, could you give the split of net fees by temp and perm in the public and private sector in the UK? Thank you.

PAUL VENABLES: Tom, I try to answer all of the questions; I don't think I've got that to hand. What I can tell you --

TOM SYKES: Just relative growth rates. Is private sector much faster than the rest of --?

PAUL VENABLES: If we start with the public sector, the breakdown of our business is 80% temp, 20% perm. And, within that, there's been a large increase in interim contracts. There's a large amount of change projects on the go, etc., etc., in some of the admin areas, and we've seen a slug of interim-type contracts.

Clearly, in construction, quite a lot of infrastructure projects underway; certainly, in Scotland, a lot of Government-backed infrastructure projects. We've seen a pick up there. But actually, I would say that the perm growth has been greater than the term growth in that market in the last six to nine months now. And that is not authorities hiring; it's actually more candidates leaving.

And that's, remember, the discussion we had two to three years ago which is candidates were frightened into the bunker by the austerity programs. Those candidates now have survived and they're coming out saying, that's great, but I haven't had a pay rise. I'm not really enjoying my job; I need to focus on driving growth in the future. And because most authorities have done the bulk of their job cuts, they now have to replace good leavers.

So perm is definitely up in that. And the private sector, which is 70%, it's going to be roughly the same again. It's two-thirds. The perm rate is going to be three times the temp rate at the moment.

As we've said, the big driver of the acceleration of our growth over the last six months is first, client instantaneous replacing leavers quickly; and secondly, now just more people looking to leave. But I will, offline, have a look at that for you, Tom.

TOM SYKES: Okay. But just is the perm public sector in line with the 17% perm overall, or is it above or below?

PAUL VENABLES: Well, on the basis that public sector was at 13%, then I would expect that to be at 20-ish-%.

TOM SYKES: Right, okay. So it's a bit faster than your private sector perm at the moment. Okay.

And just in terms of temp-to-perm conversions, could you say how those are running? And do you book those in perm, or do you book those in temp?

PAUL VENABLES: Yes, we book them in temp because, if you think about it, it's the temp consultants and the temp business has put that person into the business. They're dealing with it; they deal with the client; they get the fee, and it goes into our temp business.

Why? You're right to raise that as an issue and I don't, unfortunately, have the -- I'm just trying to drag some numerics in front of me which -- I won't be able -- these are not massive levels, but if I just put this into context, if I just look at December we were 60% up in temp to perm.

Why is that important? One of the first signs when you begin to get a perm uplift is your temp-to-perm uplift rate increases dramatically. And that's obvious, isn't it, because you're not having to go to the market for a new person. You may have had this person on an interim contract for six months in an IT project, they do a good job, they finish the project, you like them, you hire them. It's the easiest and lowest risk hiring in the world for you to take a temp to perm.

So temp to perm has certainly been up. If I give you the six-month number, that's probably as useful, Tom. For six months, temp to perm is up 35% in the UK.

TOM SYKES: Okay. And so would that account for the 5% increase in temp business? And I suppose, then, just leading from that (multiple speakers) --

PAUL VENABLES: No, it's not that material. Again, if I take the six months fees as a whole, temp-to-perm fees is only about 2%. So it's not a large number but it's one of the better indicators we had in the downturn. Temp to perm stops generally in a downturn, and in an upturn it's equally a good indicator because, obviously, you know the person, you're going to hire them.

TOM SYKES: Sure. Okay, great. Thanks very much.

OPERATOR: Laurent Brunelle, Exane BNP Paribas.

LAURENT BRUNELLE, ANALYST, EXANE BNP PARIBAS: Two questions, please. First on the UK, so obviously the recovery is clearly gaining momentum and it was confirmed by job report for December today, but do you expect some acceleration, given [this is comps led]? Or what will be the underlying trends, please?

And second, regarding the dynamics between temp and perm overall, given where we are in the cycle, do you expect the new perm outperformance [as sustained] to continue moving forward? Thank you.

PAUL VENABLES: Well, the beauty is I have three to five weeks' visibility and it's pretty hard for me to call much further forward. Clearly, we're getting the UK into some harder comps. I'm not sure at the moment that's going to be relevant for a period of time.

I think we've got a strong business doing very well with a strong regional presence. We have big specialisms in accounting and finance, in construction and **property** and IT, and I think they will be three big drivers, probably with sales. We don't have a big business in sales, but I think those are going to be the four big drivers in the job side of it.

I think, in the UK, there's no reason why perm won't continue to materially outperform temp. I think that's much harder in other parts of the world with different both structural issues in Europe, for example, but then also the economy in Australia. So I think overall, we may well have a period where temp and perm for us, overall as a **Group**, has a similar sort of percentage.

If the improved sentiment -- Europe is a really interesting question at the moment, isn't it, as to sentiment in Europe. I still think it's pretty subdued. It certainly hasn't improved in the last three to six months in Europe; it hasn't got any worse either. Clearly, if sentiment gets better, then that will drive into consumers, it will drive into candidates and it will drive into perm. I think it's just too early to tell, at the moment. I just think that we'll have a similar sort of position. Our exit rate was the same, so we don't really expect to see much change in the next quarter in many of our numbers.

More importantly is, can we see this positivity that you see in the US [without] a big business there that you see in the UK, that you see in Asia? For us, could you see that come into Europe a bit, because I think that would be great for all of us? But no signs of that yet.

LAURENT BRUNELLE: Okay, great. And one more, if I may? You said that three countries were showing declining net fees growth. So Brazil, Australia and what was the last one, please?

PAUL VENABLES: Those three were in the CERoW division and Denmark was definitely one of them. Denmark, Brazil and the other one was Italy, but it was 1% so just numerically it was negative. Pretty good, really, when you've got a diverse region such as that. I think it's quite positive that we haven't got many countries in a negative position.

LAURENT BRUNELLE: Okay. Thank you very much.

OPERATOR: Hans Pluijgers, Kepler Cheuvreux.

HANS PLUIJGERS, ANALYST, KEPLER CHEUVREUX: Two questions, if I may? First of all on the UK, coming back on the improvement in productivity. Also at the Investor Day you indicated that some principal of the first GBP30 million increase in net fees, about 75%, would be converted into operating earnings. But looking now at your investments, going forward, is that still the number you were looking for?

And secondly, on Germany, could you give a feeling on what was in the IT and engineering business? What's the split between IT and engineering?

PAUL VENABLES: Yes, it's broad -- Germany's simple. It's broadly evenly split between IT and engineering. So it's about 74% of our Group and they're both about 37% each.

On the UK, absolutely we stick with that guidance. So of the first GBP30 million improvement in net fees, 75% or more will flow through to the bottom line. The fact that today I've talked about increasing headcount will have no impact on that at all, and I think you'll see that when we come to the interims.

HANS PLUIJGERS: Thank you. That's clear.

OPERATOR: (Operator Instructions). Kean Marden, Jefferies.

KEAN MARDEN, ANALYST, JEFFERIES: I have one question, which I suspect we may have covered before, so please forgive me if that's the case. But what proportion of your UK net fees are derived from Swedish derogation-style arrangements?

PAUL VENABLES: 0%. We don't employ our temps, I guess is the starter for 10. So our temps are under the standard contract of service. Swedish derogation is in the blue-collar space. It's actually in large retailers, large manufacturers themselves. It's clearly in the blue-collar agencies, but we operate purely in the professional recruitment space. We don't employ any temps and we don't have anything under Swedish derogation.

KEAN MARDEN: Excellent. Thank you very much.

PAUL VENABLES: I think you've got a spread bet and you're trying to get it to an hour, Kean. (laughter)

KEAN MARDEN: I have no further questions, sorry.

OPERATOR: David O'Brien, Shore Capital.

DAVID O'BRIEN, ANALYST, SHORE CAPITAL: You mentioned earlier that you had a record month in China. What proportion of the Asian operations does China account for?

PAUL VENABLES: Yes, if you take our Asia business and assume 50% of it is Japan, and then the rest of it, Malaysia is a very small business, so China will be between probably 12%, 13% of our Asia business.

DAVID O'BRIEN: Right, okay. Thank you.

OPERATOR: (Operator Instructions). Paul and David, as there are no further questions at this stage, may I please pass the call back to you to close?

PAUL VENABLES: Well, thank you very much for joining us today. Thank you for your questions. I look forward to speaking to you next at our interim results along with Alistair, when we'll cover the results and outlook and that's on February 26. As normal, should anybody have any follow-up questions, David and myself will be available to take calls for the rest of the day. Thank you very much for your time.

OPERATOR: This now concludes our call. Thank you all very much for attending, you may now disconnect your lines.

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