

Randstad Group UK

Annual report and financial statements for the year ended 31 December 2019

Strategic Report

Introduction

The directors present their strategic report on the company for the year ended 31 December 2019.

Principal activities

The company's principal activity continues to be that of a holding company. The company is a wholly owned subsidiary of Randstad Luxembourg North America SARL. The ultimate parent company is Randstad NV, a company incorporated in the Netherlands. The group provides professional staffing services. The directors continue to develop the business of the group companies in each of their respective sectors.

Review of the business

As shown in the company's statement of comprehensive income on page 15, the company incurred a loss before taxation of £4,485,000 (2018: loss of £3,892,000) due to the interest payable on balances with group companies. There was no impairment of investments or income from subsidiaries in 2019 or 2018.

Position of the business

The company's net assets and shareholder's funds were £1,145,060,000 at the end of the year (2018: £1,149,386,000).

Key performance indicators

Given the straight forward nature of the business, we are of the opinion that analysis using key performance indicators is not necessary for the understanding of the development, performance and position of the business.

Principal risks and uncertainties

The performance of the Randstad UK trading companies impacts on Randstad Group UK as the holding company, as the trading will impact the group company balances and the interest thereon. The principal risks and uncertainties shown below are relevant for the Randstad UK trading companies.

The global recession which appears inevitable in the wake of the Covid-19 pandemic poses an economy-wide threat to the vast majority of UK businesses. This in turn will cause businesses, including Randstad, to look at workforce costs, structures and locations, which presents opportunities as well as threats.

Technological disruption continues to threaten traditional staffing business models, and may accelerate as pressures on costs increase. Innovative business models continue to emerge.

Uncertainty from Brexit and the form it may take impacts client demand and long-term may lead to candidate scarcity in several markets in which Randstad UK operates. In addition, the temporary delay in the implementation of changes to IR35 in the private sector has only postponed the impact. The cost of compliance continues to present a challenge for the organisation, and in particular the application of the Government's Coronavirus Job Retention Scheme during Q2 2020 and the changes relating to IR35 scheduled for April 2021.

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Strategic Report (continued)

Principal risks and uncertainties (continued)

<u>Description</u>	<u>Mitigating Actions</u>	<u>Movement</u>
<p><u>Covid-19</u> The global Coronavirus pandemic during H1 2020 has caused material disruption to the UK economy, and in particular the recruitment and staffing demands from clients. As this is a live and evolving situation, the short, medium and long term impacts are difficult to quantify, and the ability of the UK to recover quickly from the H1 disruption will depend on factors beyond our control such as development of a vaccine and social behaviour to minimise the ongoing spread of the virus. We have furloughed a number of corporate staff and temporary workers, where we will need to recover those costs under the Coronavirus Job Retention Scheme - we are reliant on HMRC approving our claims under that scheme in order to recover those staffing costs.</p>	<p>We have a Coronavirus project team focused on the practical impacts on our workforce (remote working etc). We have taken advantage of the Coronavirus Job Retention Scheme (CJRS) for corporate staff and will look to manage headcount costs accordingly in response to business needs and opportunities. A team from finance and legal is engaged full time on the application and administration of the CJRS to the temporary workforce.</p> <p>The Randstad UK business is diversified across multiple sectors. It is weighted towards temporary recruitment which appears to be more resilient than permanent recruitment in the short term.</p>	<p>New risk</p>
<p><u>Technological Disruption</u> New business models continue to emerge that threaten to disrupt parts of the client and candidate match process. Emerging models threaten specific parts of the process e.g. candidate screening rather than presenting a complete risk of disintermediation.</p>	<p>Globally, Randstad continues to invest in early-stage startups through the Randstad Innovation Fund. Locally, we continue to adapt our business models to incorporate appropriate technological solutions to enhance value to clients and candidates.</p>	<p>Unchanged risk</p>
<p><u>Brexit</u> The company's exposure to risk from Brexit is driven principally by its effect on client demand and macro-economic shift. Longer term, several sectors in which the company operates rely heavily on migrant labour and the proposed immigration model could have a longer term effect on candidate availability.</p>	<p>Diversification of services provided to our clients to include a broader HR offering protects against shifts in client demand. We continue to actively lobby on broadening the application of apprenticeship levy funds to offer skills training and ensure future flow of candidates.</p>	<p>Unchanged risk</p>

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Strategic Report (continued)

Principal risks and uncertainties (continued)

Regulatory change

The past four years have seen significant regulatory change both in terms of “soft” regulation, such as Gender Pay Gap Reporting or “hard” regulation such as that relating to IR35 or umbrella companies. In many cases, regulation is influenced by traditional employment models and can often be inappropriate for modern, flexible employment models requiring significant internal commitment to ensure continued compliance. UK political polarisation and instability add to the risk profile.

We continue to work both directly and indirectly with industry bodies to influence the shape of future legislation and ensure that it is appropriate for the modern workplace. We have retained our focus on internal governance to ensure compliance to these requirements. The establishment of a Strategic Project Management Office in 2020 within Randstad UK will provide a robust project management framework for implementing regulatory changes consistently across all UK operating companies.

Unchanged risk

IR35 in Private Sector

The government has announced that in April 2021 (postponed from April 2020 due to Coronavirus), engagers of PSCs (personal service companies) will be responsible for determining the application of IR35 and making appropriate tax and national insurance deductions from payments to contractors. When launched in the public sector, there was a noticeable reduction in candidate availability and client demand. The exclusion of small companies from the legislation presents enhanced risk around candidate availability.

We are identifying alternative business models that will mitigate our exposure to the changes and working closely with affected clients to ensure appropriate due diligence is conducted on their workforce. There may be increased political pressure for a wider reform of worker status and engagement models in the meantime.

Unchanged risk

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Strategic Report (continued)

Directors' statement of compliance with section 172(1)

The directors of the company act in good faith, to promote the success of the company for the benefits of its stakeholders as a whole, in line with one of our Group's core values, "the simultaneous promotion of all interests". The Annual statement of our ultimate shareholding company, Randstad NV, sets out in detail how we operate to provide value for clients, talent, employees, investors, and society. Specifically, the directors of this subsidiary have regards for the following matters:

- a) The likely consequences of any decision in the long term:
 - The Directors have set out a clear strategy for the business over the medium and long term for creating value and growth, which has been shared with staff and shareholders, the key pillars of which are set out below, under the name, "human forward":
 - Technology - investing in new technologies, in order to better connect clients and candidates, by making processes smart, simple, and efficient; and
 - Humanity - being passionate about supporting people and organisations and by creating an HR experience that is more human, creating that personal connection.
 - All significant decisions are agreed by the board within the context of the strategic plan.
- b) The need to foster the company's business relationships with others by ensuring all stakeholders are treated within the spirit and detail of the Randstad Group ethics policies and the core values.
- c) The impact of the company's operations on the community and the environment, including consideration of climate change through supporting appropriate Energy Savings Opportunities Scheme recommendations, CO2 caps on our car fleet (and supporting Electric Vehicles where appropriate), supporting a wide variety of charities under the Randstad with Heart initiative, and the Randstad Group VSO scheme. The company has also published a social responsibility statement, available on its website.
- d) The desirability of the company maintaining a reputation for high standards of business conduct, through the organisation's values, culture and ethical standards, as set out in the company's business principles, which are published on its website. Our core values represent the foundation of our culture: to know, to serve, to trust, striving for perfection, and simultaneous promotion of all interests. They help us develop, grow and better serve our clients, talent and other stakeholders.
- e) Since the company is a wholly owned (indirect) subsidiary of Randstad NV, it only has one shareholder; accordingly, the need to act fairly between shareholders is not applicable for the company, although Randstad NV's annual report does set out how it engages with key stakeholder groups, including shareholders, in its "Key Material Topics" section.

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Strategic Report (continued)

Going concern

Randstad Group UK is the parent company of the UK subgroup of Randstad NV, the ultimate parent company.

The UK subgroup (“Randstad UK”) has intercompany financing in place, which principally comprises the following:

- A long term intercompany loan, for an amount of £217.8m, held by Randstad Group UK – as described in note 10, the short term loan that was in existence at the balance sheet date, for an amount of £217.8m, was replaced by the new loan, which is repayable in January 2023.
- An intercompany overdraft facility, for an amount of £65.5m, that is provided by the wider Randstad NV group, under a group wide cash pooling arrangement, which is used to finance Randstad UK’s day-to-day trading activities; this is headed by Randstad Group UK, which then provides intercompany financing to its subsidiaries, as needed.

As at November 2020, the UK subgroup had a substantial level of available headroom, whereby it had positive cash of £14.4m and had not drawn on the available overdraft facility, giving headroom of £79.9m.

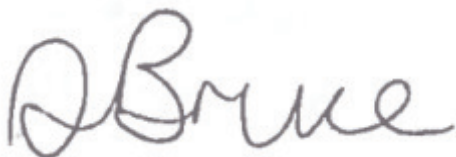
The directors have prepared a forecast for the period ending 31 December 2021, which shows that Randstad UK will remain within its current intercompany overdraft facilities throughout the forecast period. This includes a number of assumptions, including an improvement in the trading performance, from FY20 actuals, as the business recovers from the COVID-19 pandemic, although the directors do not anticipate a return to pre-COVID levels until FY22.

The nature of Randstad UK’s business is such that, during periods of revenue growth, there is an adverse impact on the group’s working capital, which is required to fund that growth, whereby cash is required to fund the resultant increase in debtors. Conversely, if revenues are declining, then the working capital unwinds, resulting in cash being released.

Given the ongoing uncertainties, particularly as a result of COVID-19, but also because of Brexit, management has carried out what it considers to be reasonably possible downside scenarios, including: a 20% reduction in revenues, which actually leads to an increase in the level of headroom; a 10% increase in revenues; and a 10% deterioration in debtor days. Randstad UK maintains positive headroom under all of these scenarios.

Taking all of the above into account, the directors do not consider that there are any material uncertainties, in relation to the company’s ability to continue as a going concern, and are satisfied that both the company will continue to meet its obligations, as they fall due, for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they have prepared these financial statements on a going concern basis.

Approved by the board of directors and signed on 17th December 2020, on its behalf by:



D Bruce
Director