

Compass Group 2019 Full Year Results

Presentation

Dominic Blakemore

Chief Executive

Good morning and thank you for joining us. At our meeting in May, I highlighted the significant competitive advantages that Compass has established. Today, we will show you how those advantages are allowing us to capitalise on the structural growth opportunities in our industry.

Back in May, I talked through our strategic priorities, what we call the three Ps; our performance, people and purpose that underpins sustainable, profitable growth.

After Karen has walked you through the financials, I will talk about how our three Ps have contributed to the strong performance we are reporting today and how they underpin our potential for the future.

But first, I'd like to have a look at the results we are reporting today, the performance in our regions and the decisive actions we are taking which give us real confidence in our positive outlook for the future.

We delivered another good year as you can see here. Organic revenue growth was 6.4%. That's ahead of our target range of 4% to 6% and the highest organic growth we have delivered in over a decade now.

Operating profits increased to £1.9 billion and we maintain a strong group margin at 7.4%. The business continues to be really cash generative with free cash flow of £1.2 billion. On a constant currency basis, EPS was up by 6% and we are proposing to increase the full-year dividend by a similar amount.

I'm really pleased with our organic revenue growth in the year. We continue to win good new business from first-time outsourcing and those wins reinforce our confidence in the structural growth opportunity.

We are also gaining market share from both large and regional players. Our client retention remains strong at 95% and we grew net new business at 2.7%. Like-for-like revenues also grew nicely, up 3.7% as we benefited from both pricing initiatives, as well as good volume growth, particularly in sports and leisure.

I'd now like to look at the performance of the regions.

North America which now accounts for 62% of the group is in really good shape. We had another very positive year delivering organic revenue growth of 7.7%. That growth has been broad-based and was particularly strong in business and industry and sports and leisure as you can see from the graph on the right.

Encouragingly, 42% of our new business wins continue to come from first-time outsourcing. Our retention rates remain high at 96.4%. North America profits grew 9% and our margins remain very strong at 8.2%. That's a great outcome against the background of the higher labour inflation and mobilisation costs which we continue to mitigate.

We see a great opportunity for Compass in the North American market. Around 70% of the market is either still self-operated or in the hands of regional players. So, we remain really excited about the structural growth opportunities.

We are also delivering great growth in B&I which is the most penetrated sector. We are doing that by using innovative culinary and technology concepts such as in our canteen vending business which is particularly relevant for clients who don't have the space for traditional restaurants. I'll say a bit more on this later.

In Europe, we increased organic revenue by 4.1%. We generated good levels of new business such as winning the UK Defence contracts and Puy du Fou, a theme park in France.

Our retention rates in Europe have slightly improved from last year and like-for-like revenues have performed well.

A favourable sports [inaudible] events calendar in the UK has led to our generating strong volumes which more than offset the increasingly challenging B&I trading environment.

The margin in Europe declined 60 basis points due in part to the higher mobilisation costs associated with the new contract wins I've talked about and more significantly, due to the decline in B&I volumes that we saw in the latter part of the year.

We recently appointed Venkie Shantaram, a member of our executive committee who was previously responsible for our Middle East, Africa and Turkey region to now lead the Continental European team on the retirement of his predecessor.

We've made good progress in recent years to increase the quality of our European business, to improve efficiency, particularly in the way we buy things, we've organised our countries into regional clusters. We've also exited non-core businesses, so it's our security and cleaning businesses in the UK. We are becoming even more food-focused and are increasing our capabilities to create subsectors through targeted acquisitions. I will talk more about this later on.

We believe the structural growth opportunity in Europe remains really attractive with relatively low penetration rates and over £40 billion of the market still self-operated.

The business in Europe is in good shape, but we are not immune to the wider macro economic challenges. We reminded you at Q3 that we were seeing pressures on our business, particularly in our larger markets. The graph shows a declining Eurozone manufacturing which is trending today in a similar way to 2012 when we took prompt action to restructure our southern European business.

Some of our manufacturing, automotive and financial service clients are reducing headcounts or changing their shift patterns. In turn, that leads to lower employment levels and fewer people eating in our restaurants.

This uncertain macro economic environment is also resulting in delayed decision-making and that impacts new business opportunities, particularly in the UK.

In the fourth quarter, the decline in B&I volumes accelerated and that hurt our European margin. So, we are taking decisive action to address these challenges. In particular, we are adjusting MAP4 and MAP5 cost base principally in Europe. But we have also extended those activities to certain margins and the rest of the world in response to other trends that we are seeing.

These actions will help offset short-term margin pressure and will importantly allow us to capitalise on future growth opportunities. Karen will provide further details on the numbers.

The performance in our Rest of World region continues to improve. Organic revenue growth increased to 4.3% compared to 2.9% last year. That includes strong performances in Turkey, India and Spanish speaking LATAM.

Our profits grew 5.9% and our margin improved by 40 basis points. That improvement came mainly from our investment in the pricing, purchasing and productivity initiatives as well as the changes we've made to our portfolio.

So, 2019 was a good year. We delivered organic growth above 6%, we've made excellent progress in North America, Europe has delivered good organic revenue growth despite the weakness we saw in B&I and we are taking prompt action to mitigate volume pressures on margin.

Finally, in the Rest of World region, our performance continues to improve.

I will now hand over to Karen to take you through the performance in more detail.

Karen Witts

Group Chief Financial Officer

Good morning, everyone. Let's start with revenue. As Dominic highlighted, our growth in North America continues to be excellent. We improved organic revenues by 7.7% and all of our sectors put on a strong performance.

Our new business pipeline remains encouraging and we expect another good year in 2020. Europe's organic revenue increased by 4.1%, principally driven by the UK. For the first time since 2016, Continental Europe was also in growth, but at a lower rate

than the UK. Organic growth in the rest of the world was also good at 4.3%. The absolute increase was lower because we disposed of some non-core businesses.

Historically, Rest of World included Turkey. Following the recent management change that Dominic mentioned, it will now be reported in Europe and there is a slide in the back of the pack to help you model this change.

In total, Group organic revenue grew by 6.4%, slightly above the top end of our target 4% to 6% range.

Now, turning to profits. We increased Group operating profit by £84 million. That's on a constant currency basis. In North America, profit was up by £106 million. We delivered a high level of organic revenue growth at a consistently strong margin. In Europe, although organic growth was good, profit declined and that decline was principally due to the impact of reducing volumes in our B&I sector and investment in new business.

Rest of World profit increased by £16 million with our teams delivering both higher revenue and increased margins. We invested a further £12 million in capability to support our growth agenda, investing in the purchasing, pricing and productivity initiatives and expanding our international clients' team.

Margin in North America remain very strong at 8.2%. In Europe, the margin fell by 60 basis points. As Dominic said, our margin erosion in Europe was primarily due to the weak macro environment hitting B&I volumes. So, we are taking cost actions to mitigate the impact of that decline.

We are pleased that Rest of World margins improved by 40 basis points, benefiting from investment and our pricing, purchasing and productivity initiatives and changes to the portfolio. For the group as a whole, the mixed benefit of higher margins in North America offset the decline in Europe, so overall, we delivered a flat margin for the full year.

In 2020, we expect Group margin to remain stable.

Here you can see the financial impact of our cost actions program. That program will result in the non-underlying charge of around £300 million. Of the £300 million, £190 million has been accounted for in 2019, the remainder should be incurred in 2020.

It's important to highlight £160 million of the charge is cash. That relates mainly to MAP4 and MAP5 labour costs and has a payback of around two years. £130 million of the charge is non-cash and principally comes from onerous contracts in our European B&I sector. These contracts have been impacted by the recent deterioration in business

and in consumer confidence. We now consider these contracts to be structurally loss-making and they have been impaired.

We expect an annualised benefit from these actions of around £90 million from 2021 onwards. The slide also illustrates the full-year impact of lower B&I volumes at different levels of decline on both revenue and profit in Europe.

We are currently experiencing B&I volume declines of between 5% and 6% in our larger European markets. In the table, you can see how a 6% decline in European volumes for a full year would impact profit by approximately £60 million and therefore, the actions we are taking and the savings we expect to generate would offset the impact of these economic headwinds and underpin our group guidance of continued strong margin.

Looking at the remainder of the income statement, our net finance costs were £110 million. That's slightly lower than last year. We expect net finance costs in 2020 to remain at around that same £110 million. Our effective tax rate was 23.3%. It was down a bit from 2018 because it reflects the full-year impact of the US Federal tax rate introduced by the tax cuts and Jobs Act.

Our current expectation is that the 2020 ETR will be around 24%. Constant currency EPS is up by 6% and in line with our dividend policy, we are proposing to increase the full-year dividend by a similar amount.

Moving on to operating cash flow. Depreciation and amortisation increased to £577 million. That increased from £521 million last year with the result of our continuing investments and capex.

Growth capital expenditure was 3.4% of revenue in line with our guidance. Capex is an important tool for driving strong growth rates and delivering solid returns. So, for 2020, we are reconfirming our guidance of up to 3.5%.

Improved cash collections help drive the working capital inflow of £59 million. Operating cash flow was therefore up by 7% with a strong conversion and 90%. Our free cash flow conversion was also very strong at 66%.

Net interest of £107 million was up due to the timing of interest payments. The underlying cash tax rate reduced to 19%, but we expect that to increase in 2020 to approximately 28%.

A significant contributor to this is the change to the UK tax payment schedule to six payments in the year which impacts all large UK corporate taxpayers. From 2021 onwards, it reverts back to four payments per year.

Our opening net debt was £3.4 billion and during the year, the business generated cash of just over £2 billion, that's before capex. We invested £806 million in net capex to support long-term growth. Our acquisitions totalled £478 million with disposals

generating £101 million of proceeds netting to a total of £377 million. We returned £611 million to shareholders in the form of ordinary dividends.

Foreign exchange in other items increased net debt by £148 million. Our closing net debt to EBITDA ratio was 1.3 times including [Facet] which is expected to complete shortly our leverage would have been 1.5 times in line with our target.

As you know, we are actively managing our portfolio and disposing of non-core businesses to sharpen our focus on food. We are making good progress. So far, we have sold or exited £670 million of annual revenues and received £130 million of proceeds.

Since the half-year, we've disposed of our business in the Japanese sports and leisure sector and some other small businesses. While in total, this review is expected to be margin and growth neutral, businesses we have already sold have been operating at lower than the average group margin or they've been lossmaking. So, the disposals were modestly accretive to margins in 2019 and this will unwind as we dispose of the higher-margin businesses.

We continue to be excited by the structural growth opportunity in our sector. To support that opportunity, we will invest up to 3.5% of sales and capex. We will also pursue bolt-on acquisition opportunities where they strengthen our capabilities and meet our strict returns criteria. Our aim is to maintain a strong investment-grade credit rating. We are targeting a full-year net debt to EBITDA ratio of around 1.5 times.

We will also continue to increase the ordinary dividend in line with constant currency earnings growth and we would turn any surplus cash to shareholders through share buybacks or special dividends. It's worth noting that this leverage target is prior to IFRS 16 which will apply to our 2020 results.

For Compass, the main impact will be on debt as we bring operating leases onto the balance sheet. Our initial estimate is that net debt will increase by around £1 billion and leverage will go up by around 0.3 times.

Since this is purely an accounting change, we expect to raise our leveraged target to 1.8 times in line with this increase. We expect no impact to our credit rating and the change doesn't impact net cash flows.

In terms of our income statement, we expect IFRS to be immaterial to earnings per share, but we will give you more detail at our half-year results in May.

Thank you for listening and now back to Dominic.

Dominic Blakemore

Chief Executive

Thank you, Karen. I'd now like to take you through the progress we've made on our performance, people and purpose priorities and how they position us for better quality, more sustainable long-term growth.

First, I'd like to recap on the strong business we've had to date. Compass has built significant competitive advantages which lets us exploit the very real structural opportunity in food services with a global leader, with just over a 10% market share.

This position we are incredibly proud of, but as I've said many times before, we are not complacent. We are focused on keeping a leadership position by maximising the attractive future growth opportunities that we see around the world.

As I said right at the start of today's meeting, we are continuing to make progress in optimising our portfolio to become an even more food-focused business. Our core competency is in food services and that's where we believe we can differentiate ourselves and add the most value.

We are divesting non-core businesses in geographies which are either subscale or lack growth potential. We are reinvesting the capital that we raise from these disposals along with the cash we generate from our core businesses into bolt-on acquisitions. That means buying food-focused businesses which further enhance our proposition and deliver more innovation for our clients and consumers.

The proposed acquisition of Fazer Food Services is a great example of the strategy and will be one of our largest transactions in Europe. Fazer is a leading contract catering business in the Nordics with sales of around €600 million. It has a clear focus on food, sustainability and culinary innovation. It's an excellent strategic fit for Compass and will be able to enhance our current offering and better capitalise on what is a very large addressable market opportunity.

We continue to see a long-term growth opportunity in Europe. We are copying the approach we used in North America, where sectorisation and sub-sectorisation has been key to our success. In fact, a lot of our US brands were originally acquisitions.

In Europe historically, we mainly used the [Euras] brand across the B&I sector which had to address a broad and diverse client base.

Over the last couple of years, we have been investing in high-quality and innovative brands and concepts across the region and also across our sectors. Recent purchases include [RTC] in France, Dine in the UK and Gourmet Invent in Belgium.

We've also built brands like Food Affairs in Germany and Exalt in France. Exalt is a great example; it is a high-end B&I brand principally in Paris which in just a few years has grown sales to nearly €90 million. These acquisitions and in-house developments will allow us to sub-sectorise in Europe, build scale and develop our own in-house expertise.

But it's not just about the offer and its importance, it's also about operational excellence which we continue to manage through a MAP framework.

Back in May, I talked to you about the progress we were making on codifying and sharing our best practices around the group.

I'd now like to expand on that theme and give you some further examples of how we are driving revenue in both MAPs 1 and 2 and delivering purchasing efficiencies in MAP3.

First, I'd like to talk to about a growth acceleration program. We know that where our businesses are strong it's because we have a joined-up approach to new business, client retention and the consumer offer which creates a virtuous circle of growth.

Our program built on existing processes and tools to get all markets to a common standard, building the right capability in each market will set us up for growth in the future. We've created blueprints, tools and training for each stage of the wheel to support our businesses. But ultimately, it's about having the right solutions at the right time and of course, they must be at the right price.

For the half-year results, I touched on the consumer experience. As I mentioned then, consumers are demanding more variety and convenience from their foodservice providers. As the global leader, we are really well-positioned to capitalise on changing consumer dynamics. Our decentralised structure means we can innovate locally and identify concepts that can be rolled out globally.

We've been investing in and piloting various new concepts for a number of years now. They are mainly in the US and include pop-up aggregators like our own Foodworks business which I'll talk more about in a minute, as well as Compass owned delivery businesses like CxRA and Occasions Catering on the east coast and Live Feed and Cosmopolitan Catering which serve parts of Silicon Valley.

We also have a number of relatively early stage partnership pilots with B2C delivery players. We see these propositions as being particularly relevant to certain sectors of the market such as B&I and higher education.

Although they are currently relatively small in scale, they still account for around \$250 million in revenue and they are profitable. In many ways, this is a natural evolution for parts of our business and an interesting incremental growth opportunity for Compass.

Foodworks is an innovative aggregator which has a roster of popular local restaurants that help provide variety for our clients and consumers. The pop-ups can either supplement the existing food offer or provide a curated offer for small businesses that don't have the necessary kitchen infrastructure.

Foodworks already operates in 21 cities across seven subsectors in North America. Each vendor has to pass strict qualifying criteria and we have frequent health and food safety audits.

Moving on to MAP3. As you know, one of our competitive advantages is the scale we have in North America when it comes to procurement. But it isn't just about the scale. Having the right processes, the data and technology are also hugely important in driving purchasing efficiencies. So, we are now improving the way we transfer expertise from our best in class markets by again applying this blueprint approach to other countries.

That includes improving our category management, closer aligning our purchasing and operations and making sure that our countries are being supported by the right in-house expertise.

For example, this year, we launched a common data-driven online ordering platform for our unit managers throughout Foodbuy UK. This has the advantage of better controlling and standardising how we buy. It removes our dependence on other third-party systems as well as being able to build in Compass specific requirements such as [anagen management].

In 2019, we have purchased over 130 million items through this platform amounting to a total spend of over £800 million.

Moving on to people where we are continuing to make great progress. It's critical that our colleagues are highly engaged and passionate about working for Compass. Last year, we conducted a study to better understand what is really important to our people and as a result, in September, we launched our three commitments of respect, growth and teamwork.

This year, we also launched a global engagement survey. The results of the survey will allow us to identify areas where we need to take action and provide support. In turn, this allows us to improve our employee retention and our customer service.

Unit manager training is an important initiative which we launched earlier in the year in July. So far, over 2000 unit managers have participated in this tailored off-site training program.

Finally, on diversity and inclusion, I'm pleased to report now that 36% of our PLC board and 38% of the executive committee positions are held by female colleagues. We are continuing to invest in initiatives to further increase diversity beyond gender across the wider group.

Onto our purpose agenda. You will now be familiar with our nine action platforms. Last time, we talked about Stop Food Waste Day under the environmental game changes pillar. Today, I'll describe some of the actions we are taking to promote health and well-being.

Last year, we served over 5.5 billion meals so that really does put us in a unique position to improve the health and well-being of our consumers. Nutrition is becoming an increasingly important part of our proposition and we are working with our clients and consumers to help raise awareness and influence their nutritional choices with salt, fat, sugar and calorie reduction programs in place across most of our key markets now.

We are offering more vegetarian options and we are encouraging healthier choices through behavioural economics. A good example of this is increasing the prominence of healthy items and changing the menu language and presentation to encourage our consumers.

On mental health, we have been taking steps to support the well-being of our own employees through several global initiatives which raise awareness, build support programs and reduce the stigma associated with mental health problems. We have recently completed the successful biometric mental health monitoring trial with Medibio with volunteer employees from our UK business.

A wearable device and inputs into a smartphone app allow for early identification of signs of anxiety or depression and the employees then receive personalised support and coping strategies.

We really believe programs like this combined with healthy food choices can be good for our people and have real commercial value to our clients as they focus on the total well-being of their people.

So, in conclusion, Compass had another strong year. We are making good strategic progress by having a really disciplined focus on our performance, people and purpose initiatives. As we've explained, we've continued to reshape our portfolio. We remain excited about the significant structural growth opportunities that we see globally.

Our expectations for the group in 2020 are positive, although, we do remain cautious on Europe.

The pipeline of new contracts in North America is really strong. Rest of World is improving and we are addressing the European challenges decisively. As a result, we are confident of continued good progress and we expect organic growth to be around the midpoint of our 4% to 6% range whilst at the same time, maintaining our strong group margin.

Thank you and now we'll take your questions.

Q&A Session

Vicki Stern - Barclays Capital

Morning, hi, it's Vicki Stern from Barclays. So just firstly on Europe with regard to the volume weakness, you mentioned a few items including within that changing shift patterns.

I'm just curious, is this all macro or do you think there's anything structural going on around flexible working, anything around delivery? If you can just talk to the sort of macro versus structural elements of that? Also, why do you think your competitors aren't sort of calling it out as much in their reporting?

Secondly, Rest of World, I think even if we strip back sort of the contract exiting in Q4, that the underlying run rate there seems to be around 6.5% in the quarter. Just sort of any reason why that kind of high pace of growth shouldn't continue into next year?

Finally, just around like-for-like that the mix between price and volume what you're seeing in terms of price pass through and any sort of regional colour you can give us, particularly for North America, please?

Dominic Blakemore

Okay, I'll take the first and third questions and then, Karen why don't you pick up on Rest of World afterwards?

So, first of all, with regard to Europe and absolutely, we believe it's macro rather than structural. Yes, we see a little bit of working from home on Fridays, but this is predominantly about the macro economic conditions. So, we have called out major economies; UK, France, Germany, we are seeing it in some of the other European countries as well. I think it's probably right to say we've seen a number of multinationals who have announced significant global restructuring programs across financial services, automotive, manufacturing and telecoms.

Our European businesses in Continental Europe are 60% B&I and across the whole of Europe, 50%. So, we are exposed to that. We believe right now, it's absolutely the right thing to do for us to adjust that cost base in line with the reduced volumes that we see at our client sites.

For those of you who remember 2012, it is very analogous. We've decided to take actions quickly and deeply and we believe that the savings that we generate will allow us to address the trends we pulled out in quarter four and a potential worsening of those

as we walk into 2020 and beyond. Again, for those of you who remember that, as a result, we grew both our profits and our margins in Europe.

So, we'd like to think that the actions we are taking now are very similar.

In terms of competitors, I mean we can't really talk to what they are seeing; I know we have slightly different footprints in the fact that we have a greater exposure to B&I and also to some of the northern European markets.

That said, we can only respond to what we are seeing and take the actions that we think are appropriate and that's exactly what we're doing and announcing today.

On like-for-like and price volume pass through, I think it's important to call out the strong quarter four volumes were in sports and leisure. Those come from - they come with the slightly below average unit margin, but they are not pure pass through, so I think the volume there is good profitable volume growth we saw in the fourth quarter. In terms of price, as we go forward, we are as we've said before seeing a little bit more price across all markets as we've seen higher inflation both on food and labour and we don't expect that to dissipate. We'd continue to expect to see a bit more price.

I think the only significant volume change is what we've called out today in Europe; we would expect to see that trend in B&I of 5% to 6% negative to continue through 2020 which would weigh a couple of points on the European regional revenue growth.

And Rest of World?

Karen Witts

Yes, Rest of World, Vicki, I think that was a strong quarter, but probably a couple of things that are worth drawing out we actually sold one of our non-core businesses; a sports and leisure business in Japan and because we don't restate the full year, there is a benefit of that to the tune of about 1% that is sitting in the Rest of World Q4 organic growth.

Then the second thing that I would tend to draw out which we referred to when we presented to quarter three was that we are seeing the end or a reduction to the drag of offshore and remote in that Rest of World region.

Jamie Woolred - Morgan Stanley

Thanks, [Jamie Woolred] from Morgan Stanley. Three questions as well, please.

First of all, on the 7.9% gross contract wins, I was sort of surprised, that was quite a big slowdown from last year; obviously, still a good number, but your weakest number for a decade despite sort of quite high capex of sales. So, if you could talk a bit about that please, that would be helpful?

Secondly, on the restructuring on the non-cash side, is that just simply writing off prior capex spend? Just to clarify that, please.

Finally, on the margin guidance, I assume that the guidance for flat margins includes the dilution from Fazer coming on initially and also the dilution from selling above-average margin businesses, thank you?

Dominic Blakemore

Again, why don't I take the first and third questions and I'll pass you the restructuring question, Karen.

First of all, on margin guidance, yes, absolutely, Jamie our margin guidance includes all factors which would be any impact of M&A which as you quite rightly say on acquisitions and on disposals will be dilutive to margin.

It also includes the impact of the run rate that we anticipate on the European B&I volumes and also the benefits of the actions we are taking. So, our margin guidance is all in for all of those factors.

Secondly, in terms of the gross contract wins, we are still very pleased with the gross contract wins. So, at 8%, we think it's still a very good performance. If you actually take a look at it and its regional breakdown, we've got over 8% gross new contract wins in North America. We had our best ever year of new business sales last year in North America and the pipeline remains as buoyant as it's ever been. So, in terms of that region which is 62% of the group, we remain very, very positive.

Our new business wins in Rest of World were 9% which again I think is a very good performance across that footprint. What is markedly different between 2018 and 2019 is our new contract wins in Europe and if you recall in '18, we would have been reporting new business particularly in UK Defence which was very material and as we've said today in the release and I said when I spoke earlier, we are absolutely seeing a slowdown in decision-making in Europe in the short term and that's market in the UK currently as we walk through the Brexit situation.

So, we would hope that that is something that improves and as you've heard today, all of our efforts are about in the medium-term continuing to grow new business in Europe.

Karen Witts

Do you want me to - in terms of the restructuring, so the non-cash charge of £120 million relates to contracts that we deem to be structurally loss-making. That means that even taking management action wouldn't put them back into profit-making territory. It is a relatively small number of contracts; we're talking tens of contracts in the context of a business that has got tens of thousands of contracts and they are in the sectors that Dominic has talked about where we can see our clients actually taking action to reduce headcount.

In terms of what the charge comprises, the accounting rules say that to the extent that you are providing through onerous contracts, then you need to, first of all, impair the - anything that you've got either tangible assets or intangible assets, so there is a chunk of the charge that relates to that and then you take a provision for ongoing losses. So, there is kind of two elements to it.

But you know, these are not contracts that were written recently and yes, they do have a little bit of capex that we are now writing off.

It's a little bit more impairment than ongoing losses. It's 60:40.

Dominic Blakemore

I mean if that was £50 - £60 million, it compares to £800 million a year of capex spend and obviously, these contracts will build up over a number of years.

Jarrold Castle - UBS

Good morning, thank you, it's Jarrod Castle from UBS.

You talk about a £90 million ongoing benefit from full-year '21 which if you kept 100% of that would be about 150 basis point uplift on your Europe margin, so should we be thinking maybe half of that you keep, so you get back to 7%?

Then you also said that the margin decline in Europe could be split between new contracts and obviously the pressures you're seeing. Can you maybe just give a bit of colour on that, please?

Then just lastly, looking ahead, obviously Sodexo called out both the Olympics and the rugby as a 1% organic growth benefit in their financial year. Would you care to give some colour from your perspective?

Thanks.

Dominic Blakemore

I'll take your second and third questions and then Karen you can pick up on the restructuring point.

I think first of all when I talked about in impact on new business, it wasn't with reference to margin in Europe; it was specifically with reference to growth. So, I think as we look forward, we will see two factors impacting European growth.

One will be the slowdown in decision-making on new business and the other will be the decline in B&I volumes.

We are guiding [to data to European growth] which we anticipate will be sort of nought to 1% within our overarching we call it 5% group growth. That takes account of both of those factors as you would have seen them today and would imply a 2% to 3% drag on European growth from the volume declines to make that absolutely clear.

Then with regard to sporting events, as you will recall, we've always shied away from major one-off sporting events. We find them particularly difficult to mobilise and operate and are higher risk to our day-to-day business, so we prefer just the blocking and tackling of the core calendar as it were. So, you won't be seeing any of that impact in our Rest of World region next year.

Then just before Karen talks to the detail on the restructuring, I think it's important for us to say as well and we've talked today about a number of clients that operate in a number of sectors, we do feel we are a bit of a bellwether for the economies that we operate in. I think we have got the track record of taking action quickly and deeply and I think you'll hear in Karen's response that we are trying to build in all the necessary contingency for thoughtful management of that.

Karen Witts

Yes, and just to that point, we have been dealing with volume decline for a while and we saw it accelerate in Q4. So, in Q4 in B&I in Europe, we saw some volume declines

of about 5% to 6% and therefore, we thought well, from a position of strength, we'll actually take some decisive action.

What you've got in the pack here is just an illustration of what that could mean, so the illustration and the pack says for sure the actions that we are taking will have an annualised effect of about £90 million by 2021.

If we assumed that volumes and only volumes declined by 6%, so it's at the high-end of what we saw at the end of Q4, then with no other changes, that could impact us by about £60 million. So, as you can imagine, we are trying to build in a little bit of contingency to protect us against things that we can't really predict at this time of the year; we have only just started the new year.

But there is a whole lot of other things that go into the mix and at the moment, I think we are trying to manage what we are seeing; if there is any upside, then that would be great.

Jarrold Castle - UBS

Do you think you can get back to the 7% margin for the business?

Dominic Blakemore

The first thing I'd say is look, in a matter of just a couple of weeks, we saw six or seven clients and that's 100,000 job losses across multi-year, multi-country. I think that's the sort of territory we are dealing with in the uncertainty and volatility. So, we are taking what we think are the right actions.

Does it mean we can get back to 7% margin? We have always said we believe there is more margin potential in this business. It will be a balance of factors in any one year as to the headwinds and tailwinds that we are facing. We think we are taking the right action for what we see today.

Will it give us an upside benefit? We don't know.

Unknown Speaker

Hi, morning. It's [Jeff inaudible] from [Ixambe and Bee] Paradise. Just two questions for me.

The first one on the Europe plan; you're obviously right that 2012 offers a good track record I suppose on that basis, but it was slightly different because there were material business exits, entire country exits at the time. You shed 3% of your revenue. It was a bit easier to understand how you deliver that and as you correctly said, margins then improved 70 bps on a net basis.

So, it probably is not fully, fully comparable if you could maybe elaborate on the differences here and how you're going to achieve those savings?

Then my second question is on the US where the healthcare segment has been a star for years. This year, I think if I look at your qualitative descriptions, this bar chart shows that four of your seven healthcare segments are actually below North America average; two of them are right at the bottom. It looks like a 2%.

So, this year, sports and leisure saved the day. What's the plan for next year? Is US healthcare going to improve or can you see any other segments saving the day again if that growth driver is a little bit less of a contributor?

Dominic Blakemore

Surprised by the phrase saving the day, but I'll take the question in the spirit it was intended.

Yes, look, absolutely healthcare has been a terrific business for us. If you go back two and three years, it performed above average. I think we've always said when you go through growth spurts that after that, we sometimes see slightly less growth as we digest what we have won in previous years. I think that's absolutely what's happened here.

I think you will see a very strong performance from sports and leisure next year or in 2020 and likewise, we've seen - we've had a couple of years of lesser growth in higher ed, we've seen a very strong year from higher ed, that is also a sector which uses more capex.

So, I think to reassure you there that we feel positive about North American growth into 2020. A mix of that growth may be different and I think you will always see that.

With regard to your questions on Europe and first of all, yes, you are right aren't you and the conditions of 2012 are different to today. 2012 was [inaudible] risk, it was about public sector clients and it was predominantly southern Europe.

Where I see it being analogous is that we took the same actions, we had to address particular contracts, we had to address particular client's exposures and we had to address our labour efficiency levels both on-site and within our head offices as a result of the new activity levels. That's what's analogous. I think the risk now is in different markets and across private rather than public sector.

In terms of the savings, I mean we have announced today it is a two-year payback on the cash cost element which I think you would also see is broadly in line with where we were then.

I think what you'd probably expect in those markets; I leave it to you to draw your conclusions as to what you are seeing across other clients in those industries and markets.

James Ainley - Citi

Thanks. James Ainley from Citi. Two questions, please.

Just first on the £90 million annualised cost savings; can you just split them down please between the benefit from the onerous contract provisions and then the kind of cash labour cost savings?

Then second, if I look in the pack, you return [inaudible] weaker in North America I guess impacted by the mix of business and the demands for capex in different areas. Can you talk about the returns you were targeting and you're achieving on that capex investment in North America?

I think you said in the past that you're targeting it to be at least in line with the group average and so, therefore, should we expect North American returns to continue to decline?

Dominic Blakemore

I will take the second question and then pass the first to Karen.

I mean look, in terms of capex, still really excited by using capex in the North American businesses. It's given us great growth; it's given us longer than average contract life. So, as we said before, where we've deployed capex, we get an eight-year contract life.

The average for North America is now at seven in part because of that use of contract. That means we have less retention risk; we print a better retention number and we are more tipped to growth.

So, we think it's a really important use of capex in North America and the returns get tested as to the returns on all capital proposals in all parts of the group and approved at various levels within the group and yes, we are targeting returns in North America which are above the group average.

Karen Witts

In terms of the £90 million annualised cost savings, those are coming from the labour cost savings.

Tim Burt - UBS

Morning, [Tim Burt from UBS]. Could I just ask another question about slide 17, the sensitivity analysis? It looks like you are suggesting there a 36% drop through from revenue to profit of the volume changes. Can you talk about the logic of that and how conservative it might be or otherwise?

Then just a high-level question about labour costs next year; do you expect any change in the cost inflation on labour versus this year?

Dominic Blakemore

So, I think that 35% is probably the level we have always talked about in Europe which is about the fixed labour costs post variable labour and includes other overhead costs within the P&Ls of the [inaudible] which we consider to be fixed.

Our European labour mix is obviously quite different to North America where we have for example greater labour turnover and the ability to flex labour within turnover more dynamically and also, with much less a labour protection and therefore cost. So quite a different model to touch on that.

And the second point...

Karen Witts

The labour inflation is similar to what we've seen this year.

Richard - Bernstein

Hi, good morning. Richard Clarke from Bernstein. Just two questions from me.

The cost savings you're putting through, maybe you can just give a little bit more detail what labour are you actually taking out and if - why are you taking it out now if that opportunity has existed for a few years and what opportunities will there be to take that out if say volume started declining in the US as well?

Could we expect to see similar offsets?

The second question is just a largely political one, but given you're one of the UK companies with a big Rest of World exposure, are there any contingency plans in place for a Labour Government relisting in the US or anything similar?

Dominic Blakemore

So, first of all just talking about labour; I mean look, we didn't have the need to adjust labour in previous years, right? We didn't have the volume declines and our industry is also about quality of service. So, you need to have the right resourcing levels to provide a quality of service to the participation or number of people eating in our restaurants is as simple as that.

We've seen that need in the second half of the last financial year and we've seen it accelerate very quickly and therefore, we are taking the actions that we are taking.

We've said before look, our labour turnover rates in a number of our European markets would be below 5%. That's quite different to North America where it would be at still 35% to 40%. You get a lot of natural churn which allows you to dynamically flex your labour model and of course, as we all know, protections and yield in Europe around labour cost and so on are much greater.

So, I think that's a combination of factors that's quite different and the conclusion, of course, is that our US business should be able to deal with any of these circumstances should they ever [pertain] much more dynamically.

In terms of [unclear] of course, you would expect us to be considering all the scenarios at all times. It's been a matter of board review. I think that's all I really need to say.

Sorry, Vicki, yes, please?

Vicki Stern - Barclays Capital

Yes, sorry just changing tack slightly; just interested in what you are saying around the deliveries. You said you are signing up a few trial B2C delivery partnerships. Just what do they look like? Are they around specific B2B from those B2C guys and just a bit more colour on what that might evolve to look like?

Secondly on Foodworks, the way you are using that to supplement an existing contract, I appreciate the economics of Foodworks can be very attractive as it is commission-based, but where it's used as a supplement, are you [net, net] seeing less profitability out of those units because I guess there is - you've got to give a profit share to the outside restaurant?

Thanks.

Dominic Blakemore

Yes, I think the principal with both is how do we bring the variety and excitement of the high street into the office? I think they're both are alternative ways of us being able to do that.

So firstly, with Foodworks, we obviously partner with high street restaurants, we have the technology, we have the delivery throughout canteen vending operations to be able to provide that. It shows up as an [app] where our clients can choose the combination

of outside restaurants that they want to bring in. We own a commission and what we've actually seen is where we've got it fully up and running, we've seen incremental fall in our units rather than any cannibalisation.

So, I think those people who were previously choosing not to dine with us and go on to the high street are now captive within our sites as they see greater choice. As we've said, we've grown that to 21 cities and \$250 million of revenues and we are making money. So, we are really pleased with that.

With regards to the B2C partnership, I think it's again just an example of how can we combine technology and delivery to provide alternative offers to our client base. It is particularly relevant with event catering as opposed to the standard lunchtime offer where we can partner with a number of different partners. The B2C model allows us to use that to be - in effect in a B2B basis and we believe it can work to provide scale and volume to those partners as well as alternative choices to our clients.

So, we think it's an exciting and thoughtful way of capturing that trend.

Very good. Jamie, again?

Jamie Woolred - Morgan Stanley

Just a couple more, please. I may have missed the answer, but on the like-for-like sales of 3.7%, could you break that down into volume and price on a full-year basis, please?

Then on the Rest of World margins leapt again in the second half, up 70 bps, they're up 130 bps H2 last year. I just don't understand where that is coming from and why it's always second-half weighted?

What's the margin guidance for Rest of World next year and what's going on, please?

Dominic Blakemore

On the first question, like-for-like sales at 3.7% it was about half-half, so obviously those volumes were supported by the strong supports in the [Asian] calendar and [inaudible] Rest of World margins.

Karen Witts

At this stage, in Rest of World margins and so for FY20, then let's just assume at this stage that they will be about flat. The reason that they were weighted to the second half of the year was a function of changes that we were making in the portfolio where we were disposing of the low margin businesses and that just happened to weight itself into the second half of the year.

Then actually, as we are ramping up our activities around what we called the three little Ps around the pricing, purchasing and productivity, that's a relatively new set of initiatives for us and we are seeing some good results come in Rest of World. Japan and Turkey, I'd probably pick out in terms of better pricing and then just seeing some work in that region around labour management both in terms of scheduling, but also in terms of retention.

Dominic Blakemore

Yes, any more questions? Any questions on the phone? No. Well, thank you all very much and we look forward to seeing you at our meet for the half-year results. Have a good day.

Karen Witts

Thank you.

[End]