

Compass Group Quarter 1 Update Conference Call

Presentation

Dominic Blakemore, Group Executive Officer

Thank you very much. Good morning, everyone. As usual, I am here with Palmer, our CFO. We've had a good start to the year, and we're delighted by the continued strong performance of the business.

Group organic revenue increased by 24% as we continue to benefit from strong outsourcing trends and a high client retention. Net new business going to was 5.5%, which is significant above our historical rate of around 3% and line with last year.

We're particularly pleased with the balance of growth with all regions growing at around the same rate. Our European business continues to perform well, benefiting from the increased focus on growth, supported by investments we've made in recent years.

Like-for-like volumes were particularly strong in business and industry as employees continued their return to offices, and in sports and leisure where participation rates remained high.

With persistent high inflation, we continue to work closely with our clients to mitigate this pressure both operational and through appropriate pricing in line with recent trends. While consumer demand has been resilient, we're mindful about the uncertain macro and any potential impact that may have on discretionary spending.

We remain positive for the full year and we're reiterating our guidance. We expect operating profit growth above 20% on a constant currency basis with organic revenue growth of around 15% weighted towards the first half of the year, and an underlying operating margin above 6.5%.

Longer term, we remain excited about the significant structural growth opportunities globally and the continued strong levels of outsourcing. The combination of an increasingly complex operating environment and trends that include sustainability and digitalisation as well as our market-leading offer mean we're best place to capture these opportunities.

Overall, a good start to the year. Now let's move to Q&A.

Q&A Session

Jamie Rollo - Morgan Stanley

Thanks. Morning, everyone. I've got three questions around the net contract sales contribution, please. The first is 5.5% is clearly a very good figure but I guess the critics would say it's a bit slower than the 7% you delivered in the second half of last year. We've also seen a weaker recent performance from your two large peers in terms of net contribution. Is there any change you're seeing in the outsourcing environment or is there any sort of seasonality or lumpiness that we should be aware of?

Secondly, in terms of some KPIs on those figures, it would be great if we could just get a mix of first-time outsourcing and maybe quantify the pipeline which you have in the past.

Then finally, if we are gliding down to a more normalised figure, is that 5.5%, is that like your higher watermark for the year or can that be sustained do you think for the rest of the year? And are you still confident in delivering 1 to 2 points better than the 3% that you did pre-COVID? Thank you.

Dominic Blakemore

Morning, Jamie, and thank you for those questions. Let me tackle the first and then maybe pass on to Palmer for the next two.

Look, first of all, yes, you're absolutely right, there is lumpiness in net new. We have seasonality in sports and leisure in particular, which would benefit the fourth quarter of last year as we saw openings in the sport seasons. We also have a degree of seasonality within higher education as well.

There will always be a bit of lumpiness within the quarters. We were super pleased with quarter 4 of last year; we're super pleased with 5.5% in quarter 1. Yes, it's 20bps lower than the full year 5.7%. We need to see where we play out on a full-year basis. I think what's really important, and maybe going to your third question, is we talked about sustaining 1 to 2 percentage points better than our historic 3. That would be on top of that historic organic of 6% and gets us to the mid-to-high single-digit aspiration on a go-forward basis. We feel confident about that. I think this number in the first quarter fully supports that level of performance.

Palmer Brown

In terms of first-time outsourcing for the trailing 12 months we're about 42% of our wins from first-time outsourcing, so up still significantly from historical levels of around 30% or so.

In terms of pipelines, we've almost completed business reviews for all of our subregions. I think we have one left. We're doing a deep dive into the sales

processes and one of the things we're looking at is pipeline coverage, and we've never had better coverage. We're looking at coverage through all the stages of the sales process.

One of the things we're most excited about - and frankly perhaps, what we are most excited about - is the balance of the growth among all the regions. We worked really, really hard at improving that growth outside of North America, and that's just embedding the processes, doing the right things, the mentalities. It's starting to show up in the results. We're taking a more granular look at the processes and where we are in the stages, so there's lots of reasons to believe it can continue.

Dominic Blakemore

Yes. Just to add to that, it's probably just to build on Palmer's answer, but North America has grown organically historically at 8% and within that would be 5% to 5.5% of net new. I think what's brilliant about what was being achieved last year in the first quarter is we're seeing those levels of net new outside of North America which would support a Group 8% organic growth rate. So, I think that that's what's exciting. And of course, whilst we suggest that 1% to 2% is our ambition over time of an acceleration of net new, we're clearly working on building pipelines, putting in the sales resource, developing the offer to sustain the types of levels that we're seeing today.

Vicki Stern – Barclays

Morning. Just sticking with that theme first, the - I think you said 42% on the first-time outsourcing. What's going on in terms of the other sources of growth? Are you seeing any uptick in terms of the contribution from the small regional players or potentially any sort of change on the large competitors, I guess, as one of your big peers potentially is doing a little bit better themselves?

Secondly, just more broadly on the full-year guide of 15%. I guess given 24% organic growth in the first quarter, that now does imply quite a decent deceleration across the year. Clearly the comps are going to get tougher, but still. Would you say your guidance is conservatively struck or are you genuinely expecting a contraction in volumes, and I guess if so, from where? If you can talk perhaps around US tech job losses etc, what you're seeing there.

Then just finally on the margin bridge. You helpfully walked us through that bridge back at the full-year results between the 6.5 you're at, at the moment, and the 7.5% pre-COVID level. I think the first of the buckets you flagged was obviously inflation. Based on what you're seeing today, I suppose what is going on in terms of your levels of inflation? Are we likely to see that tipping point moment for margins there in coming months where that starts to improve for you?

Similarly, there's the drag from net new on margin, how we should think about the evolution as we enter backend of this year and into next year. Thanks.

Dominic Blakemore

Thanks, Vicki. Let me tackle the second one and then over to Palmer for a bit of colour on the others.

Yes, just in terms of the 15% to your question around deceleration. I think we've seen in the first quarter 5.5% net new, around the same level of pricing as last year so about the same level as net new, and then obviously double-digit volume recovery.

We broadly expect similar reach and momentum in the second quarter as we lap an Omicron-impacted comparator. As we go into the second half, broadly we would expect the same levels of net new and pricing. The real delta for us is volume and that is I guess where the conservatism plays in. We're lapping a strong volume recovery in the second half of last year.

As we've said today, there is some macro-uncertainty around discretionary spend and you referenced the impact on certain parts of the B&I portfolio of recent restructurings or resets. I think that is the delta that we need to see how it develops in the second half before we would revise any guidance. I think we are more optimistic on that than not as it were. Then specifically, you ask about US tech. I think important to say of our total global portfolio tech is 5% and I think the broad levels of restructuring that we're seeing being announced across that sector are 5%, 6%, 7% so it's less than half a point impact to us. On the other hand, I think we're still benefiting from a return to office within that sector that is likely to accelerate we believe over the coming quarters. I think that's less of a material factor than perhaps would seem on the surface.

I think broadly, super pleased with Q1, strong trends. I think the element of uncertainty is just volume as we lap that strong recovery in half 2.

Palmer Brown

Yes. In terms of the sources of growth, are they changing, we're seeing a continuation of the themes from last year. Really, the macro environment, the challenging macro environment is presenting a lot of challenges on the day-to-day operations.

When you think about heightened inflation, when you think about supply chain, labour availability and in terms of clients' propositions, their desires for wellness and sustainability, more digital diversity and inclusion, those kinds of themes are really playing to the benefit of the bigger players. We think we've positioned ourselves very well with respect to each of those areas.

Really, I think the bigger players are benefiting more in this environment. You're still seeing some of the regionals doing quite nicely in some of their niches, but overall, it's playing to the benefit of the bigger players. First-time outsourcing would be the most pronounced movement of all.

In terms of the margin and the margin progression, we still - we don't see any margin impairment whatsoever. We do expect to see ongoing margin progression, certainly year-over-year. What we've seen in the first quarter has been in line with our expectations which are flattish first half from the second half of last year with some margin progression in the second half of this year.

It's really - as you say, Vicki, it's tied to some degree to the rates of inflation and net new business, the business mobilisations. We are seeing some signs of inflation stabilising. It's still at the high single digits; we're not really seeing any regression in those rates of inflation, but we are seeing the signs that it's stabilising overall.

When you think about when inflation really started to get to those heightened levels, it was about at the midpoint of last year. As we start to get to that point of this year and then with perhaps a slightly improving macro environment, we'd like to think that those rates could subside a bit. We do expect them to be at heightened levels compared to where they've been historically but perhaps a bit lower than where they are right now. We think that can help the margin progression a bit.

We've got some pricing activities that have been ongoing for a while, our mitigation activities that are there and as the volumes continue to increase, to be able to produce that leverage. So, that element is there.

The other element is the net new business. It's still very much heightened compared to where we've been historically and we think there are reasons to believe it can stay that way, but it is getting to a more normalised level than perhaps an exceptional level that we experienced in the second half of last year, and certainly that will have a bit of a benefit as well.

Overall, confirming our margin guidance for the year of above 6.5% with that progression really coming in the second half.

Dominic Blakemore

If I may, Vicki, I'll just build on one of the points Palmer made. Palmer, Gary and I did a tour of the US and we also visited Europe in January, meeting clients representing more than 10% of the revenues of the business, and I've never heard more clearly those drivers of digital diversity and sustainability being what's really important to our clients.

We believe our ability to address those is a true differentiator in our ability to take share and also unlock first-time outsourcing. I think we identified these as the key themes since we came out of COVID; I think they are the absolute must-win battles for us over the next phase.

I'd urge you all if you haven't already done so, our UK business has just published its sustainability report and I think what's striking in that is the level of specificity, data, and science behind all of this. That was a bit of an a-ha

moment for me from when I saw that to realise what it takes to get this right and to have the credentials to demonstrate that you're truly delivering. I think that's where the differentiation in this complex world really can take us.

Jarrold Castle - UBS London

Good morning, everyone. Good morning, Dominic, Palmer. You mentioned a strong pipeline of acquisitions so should we expect the acceleration on the £55 million per quarter as we move through the year?

Secondly, given the run rate of your buybacks, it looks like probably completes late 2Q, early 3Q, do you still see buybacks as the preferred way of returning capital? And related to the acquisition pipeline, do you see any acquisitions that might hinder the ability to do further buybacks or anything pretty chunky, I guess?

Then maybe just thinking about the balance sheet, you don't have much refinancing to do this year but next year there's £1 billion-odd. How do you see the financing markets at the moment for you, and again, how does that play into capital returns versus paying it down from internally generated value returns.

Palmer Brown

Yes, light start to the year in terms of M&A. It's still very much part of our strategy and we're looking at M&A opportunities in all the regions, but it is a light start to the year. That said, I do expect us to do some more as the year progresses so you should expect those numbers to increase, albeit nothing really in the significant range.

We've got to be mindful about how we go about M&A. We talk about the challenging operating environment for our operators on a day-to-day basis. It is really tough for them, and if we're going to introduce something that could perhaps be a distraction for them, it needs to be very, very compelling.

You've always seen us have a disciplined approach to M&A before. Certainly, that's playing out now. We don't want to buy just to buy scale; it really should be about how does it help us grow, and if it can help us grow overall, a combination of the acquired business coupled with our current business, I think that needs to be the litmus test, the tell-tale sign in addition to those normal financial hurdles. No, it is something that's part of the strategy and we do want to see more of it as we go forward.

In terms of the capital returns, the buyback, it is progressing. As you say, it should be complete by the half year. We are cognisant that where we are financially with the buyback, the M&A projections and the like that leverage will be somewhere around 1.3 times at the half year.

We will take a look at the overall landscape of internally and externally and make some decisions. Our capital allocation framework is pretty clear: we love

to invest internally as much as we can; we'd like to do M&A where it makes sense; and then we'll return excess to shareholders.

In terms of the form that takes, I think you've seen us adopt various forms over time, and I think it's incumbent of us to look at all options and make the best decisions based on that time period. Thus far that's been share buybacks more recently but it's one we'll always keep all the different return mechanisms in mind.

We're cognisant about where we are. It's all about maintaining optionality and we think we'll have that optionality at the half year.

Jarrold Castle - UBS London

Palmer, just on refinancing for next year.

Palmer Brown

In terms of that you're right. We don't anticipate any further refinancings for this year. We're looking at our next one, absent anything different, perhaps in the summer of '24.

Certainly interest rates, the interest rate environment is one we're keeping an eye on and it's factoring into our decisions in terms of capital allocation, capital returns and the like. It's no secret it's been a material impact on all companies and we're not immune. I think our credit rating and our overall balance sheet works in our favour relative to others but it's still a significant increase when we look to refinancing, so it's got to be part of the equation.

We've got no problem obtaining capital, of course. It's just a decision as to whether that makes sense.

Leo Carrington – Citigroup

Good morning. Thank you, Dominic, and Palmer. I have two questions, the first on pricing for Q1. If you could just elaborate on the risks and opportunities that you see now, is there any evidence that the underlying consumer is struggling to accept the inflationary price rises that are going through the outlets and altering that spend or mix?

Or on the flipside, could it be that you have evidence that given the broad inflationary pressure that food buy, and your mitigation actions are preventing the competitiveness of your offer versus the high street has increased? How do you see the balance of those two factors?

Then separately on retention rates. I didn't actually see the retention rate in the release. Can you perhaps give us that KPI? Then on retention, I think elevated levels are a combination of your success in re-contracting and clients

not wanting disruption of a switch during the pandemic. Any sign that retention rates might slip down going forward as clients stabilise themselves?

Dominic Blakemore

Thank you very much. Those are two great questions. I'll take retention and then pass pricing to Palmer.

Look, on retention we didn't report the numbers, but they are in line with Q4 of last year. Q4 of last year was 96.9%; we're at the same level in Q1 of this year which again is a significant improvement on the historic run rates and really pleasingly means that two of our regions beside North America are above 96% now, which is really where - the delta of improvement we were looking for, so very positive in Europe and rest of world.

In terms of your question on retention, I think it's a bit of a misconception that there wasn't a rebidding of contracts through COVID. It did actually continue and pretty much at the same levels as we saw historically. Obviously, these things were done virtually but many people had the opportunity in the downtime to run those processes. Actually, it was almost counterintuitive for us too that that was the case. I'm not sure that that is what is playing in.

I think there's definitely an element of that because of the pressures during and after the pandemic, we've been able to demonstrate to our clients the benefits we can bring to them. I think that's given a greater appreciation of our services and therefore a greater opportunity to retain contracts, and that may be true of the industry more broadly.

As we look forward, I think we're likely, particularly in a higher inflation environment to see more pressure from clients on what we can do to help them with efficiency. So, look, I think the pressure to retain business will be as acute as ever, we're very focused on that. I think a lot of that plays into the first question you ask about the efficiency we can deliver through our scale, and in particular in Foodbuy.

Palmer Brown

On your pricing question, Leo, those inflationary pressures, the way they're coming through in the business, we always have to start with mitigation. That's the first place that we need to start. Our clients expect us to mitigate the best way we can. We've got to continue to show the value proposition to them.

Pricing is really a secondary type of approach, but we've got to show the mitigation and the value proposition and as you alluded to, Foodbuy is a big part of that.

We are seeing some stabilisation of the supply chain compared to where we've been. Now, it's still not normal but it's been very much disrupted for a

couple of years now, and we're seeing gradual return to normalisation there, which is helping.

What we're also seeing too is the benefits of a lot of the initiatives we put in place in the last two years really starting to come through. That is helping us significantly in that respect and we expect it can continue as we go forward, as this normalisation continues. Then when we do price on the client side and with the consumer, we have been able to get pricing - you'll see in the first quarter it's been about 6.5% which is actually a little bit higher than where we were over the course of last year and the like.

The consumer spending still remains strong. We have thought that it could perhaps regress a bit but we're not seeing it, really. The per-caps, the check averages and the like in sports and leisure in particular remain very much elevated. But it is something that if you'll recall we flagged at the end of the full year; we're keeping an eye on that. It's one of the cautionary factors we're looking at as the year progresses but we're really not seeing it thus far yet.

Dominic Blakemore

I'd just add to that, to Palmer's point picking up the data points, our pricing is probably below what's emerging as average wage inflation so actually could look like a net benefit to the consumer. Aside from that, we're also we believe pricing below the high street by some distance which, to your point, is really worth stressing. We should be demonstrating greater value to the consumer relatively than we did before inflation came along.

Richard Clarke - Bernstein

Thanks. Good morning, everything. Three questions, if I may. One is just the homogenisation of growth net new win levels across your three regions. It used to be you talked about the US being a more favourable region, you get longer-term contracts, higher margins, albeit with a bit more Capex. Just wondering, the contracts you're signing now in Europe, rest of world, are these matching that historical profile of what you like to sign in the US?

The second question, around the one region that accelerated from Q4 was rest of world, despite the fact that I believe that's the one that had the biggest volume recovery up to that point. So, maybe just a bit of colour around what's happening there. Are you benefiting from some commodity help or is this in other segments in rest of world?

Then third question, just around you mentioned in the prepared remarks wariness around discretionary spend. I think if we go back to 2009, the cyclical risk was a little bit more framed around unemployment, that you had higher unemployment. You might even see some volume weaknesses, what you saw back then. Maybe just frame what do you see the discretionary spend risk as being. If we do see discretionary spend come down, how much risk do you see that to your top line?

Dominic Blakemore

Thank you, Richard. Let me just tackle the middle question and again look at Palmer on the first.

Yes. First of all, just in terms of the relative recovery of our regions, in the first quarter I think the Group is at 121% of where we were in 2019. Within that, North America is around 125% and the other two regions around 110%.

So actually, that relative recovery, it's happening at different places across different regions, really based on where we've seen reopening from COVID and any subsequent waves. Actually, rest of world is being held back a little bit right now because in Asia - and we've still got a wave of COVID that's impacting Japan, China, Hong Kong, for example, whereas we're now lapping the end of waves as we saw it in Europe and North America.

[I'm not sure], you may have seen an acceleration in the quarter but actually I think it's worth looking at where we are now and where we're likely to go to, and we think that's very positive across all three regions with still a little bit more in the tank in terms of that volume recovery.

In terms of discretionary spend, I think Palmer will give you a bit more detail as to how it impacted previously and now. The one thing I would say, and I referenced it earlier, in a way if we can hold prices back below the wage increases of the consumer that we've got within those particular sectors and particularly hospitality in the more blue riband and high-end sports and leisure events. Then we feel that we should be able to mitigate any impacts on per-caps and volumes. That's what we're working through at the moment.

If we also look to the forward order book for the big events, it's very positive right now. Again, I think you have to - unfortunately, this crisis is impacting different groups differently and typically, the consumer that is participating in those events tends to be more protected against the inflationary pressures that we're seeing.

That's how we look at it from an inflationary impact. From an employment impact on that, maybe over to Palmer and what we sorted the last time through.

Palmer Brown

Yes. Back in the financial crisis in 2009 we saw decreased volumes of around 3%. Most of that would have been in our more cyclical sectors, B&I and sports and leisure would be the two biggest. We were able to offset that with the net new business and pricing to keep it fairly flat overall. Again, it speaks to sometimes you get the tailwind on the net new, and those kinds of factors present themselves as a bit of an offset.

The business shape is different now than it was then. At that point we were about two thirds or so, 60%, a little over 60% cyclical. At this point it's roughly

the opposite with the growth of health care, education, and the like, which are much more balanced regardless of the macro factors. We think we're positioned fairly well in that regard and then our geographical mix plays a part.

So yes, there is a bit of a risk that we're keeping an eye on, but we certainly don't think it's material, Richard.

Then in terms of the net new business, the balance that we're seeing across the regions, just as we've mentioned before, it's something that we are proud of, that we are excited about where it's going to. We worked really hard on it.

It's not the same when you peel that onion back. Just like in North America, when you peel it back and you look at sector to sector, it's not the same. You've got different sectors that have different capital intensities, different contract terms, different contract structures. We take the approach that's best for the client and that might differ client to client within a given sector.

It's the same thing when you look at the geographies. North America would still be our most capital-intensive business. It's much less so when you get outside of North America. We're still utilising capital to try to win and retain new business and we are seeing that take place, but there are other items as well; the contract structures are a bit different, more fixed price, less cost-plus. When you get outside of North America, the contract durations, the terms are a bit different, they're shorter outside of North America.

We're not really taking a cookie-cutter approach. Moreso we're looking at the processes, what are the right processes to utilise. Let's make sure we get the right people in place, we've got tried-and-true trainings around the processes. Let's deploy those processes and then the outputs will come.

That's where we've been focusing really, really hard on, is as we said earlier, going through these business reviews, just taking a really focused and granular approach. We think if we focus on those inputs, the outputs will be there.

Kean Marden – Jefferies

Thank you. A lot of mine have been asked but just a few to wrap up with. I'm just interested in your line of sight over the education bidding seasons, whether in particular there might be an outsized wave that you might be bidding on this spring.

Secondly, have you seen positive sequential momentum in your facilities management business? Over the last six months there's been evidence in the industry data elsewhere that we have some negatives and some post-COVID tailwinds might have started to normalise there.

Then thirdly, just coming back to that balance sheet, Palmer. How firm is your forward interest rate hedging policy? Is there any flexibility to move the hedging proportion around over time or is that quite a firm, entrenched policy? Thanks?

Dominic Blakemore

Let me take the support, the transport services question and then Palmer on higher rate of the balance sheet. Let's remember 85% of our business is food, only 15% FM, so it's a small impact. That said, our FM business has done very well in recent years. We see effectively accretive net new growth from that part of the business, and I think we've developed our capabilities in the key markets where we are competing very well.

Particularly - and we've always been strong in health care and DOR because it's typically part of the outsourcing model, but we built our capabilities in the US around B&I and a little bit more in the education space as well. Those are accomplished businesses which are growing attractively, and I don't think there's any volatility really in that growth. We feel that the opportunity in the market is there, we have the capabilities and it's sustainable as accretive growth on that part of the portfolio.

Palmer Brown

Yes, maybe just one more piece there. We are seeing some of the one-off volume projects within that area to tail off a bit which may be what you're seeing, Kean, but overall that sport service business is growing in double digits for us. If you think about it, it didn't have the volume depression that the other businesses had. So, it's really about net new business that's the biggest driver there. It's something that we do like, and we are seeing, so sort of a blend of the two.

In terms of education, this is a normal retention year for us in education. We have some chunky retentions in higher ed and the like but when you have the number of higher-ed contracts that we have, every year is going to have some chunky retention. It's nothing that's abnormal in that respect, last year wasn't either, so it's more of a continuation there.

Traditionally, the education selling season has been in the spring and that's still the case but we are seeing more activity happen in other parts of the year. So, no additional risk in that area than we would normally have. Frankly, when we look at these types of things we always look at the opportunities more so than the risks, so we do think we can capitalise.

In terms of the balance sheet and the interest rate hedging, we have a bit of a hybrid approach. We are much more fixed in the near term and as you start to get into longer terms in outer years, less so. Right now we are at the - we're maxing out on the high end of the fixed rate, so we're completely fixed for the current year and as you get into the out years we're about 70% or so fixed for '24 and the like.

It's something that we're constantly keeping an eye on but we do have good line of sight and are pretty comfortable with where that number will land for this year.

Then just alluding back to the prior question about future financings, that will be the biggest element and that interest [exchange] is just the overall level of the debt.

Kean Marden – Jefferies

Great, understood. Sorry, Palmer, just to come back on the education point. I guess my question was more around potential new outsourcing opportunities within education rather than a rebid or a retention question. If we have these positive drivers, are we potentially going to see another step change and a very active first-time outsourcing pipeline that emerges in education in the spring? That was more the direction of the question.

Palmer Brown

Yes. Apologies, Kean, for misunderstanding that. It's something we have been seeing already. We've been seeing a bit more first-time outsourcing there consistent with some of the other sectors as well, so a lot of the pressures are helping to outsource in K-through-12 in the US, some of the higher ed in the US, and different things.

The educational institutions are certainly not immune to this. It does take a bit longer and a bit more to get them over the decision-making hump, so to speak. They're slower to move than others but there's - that has been happening and there's certainly reason to think that can continue.

Neil Tyler – Redburn

Thank you. Good morning. A couple left, actually. I wanted to go back to your comments on participation rates and wondered if there's any way that you can benchmark those against the alteration in your offer. Because presumably that is one of the critical factors behind the improved participation rates as they stand relative to 2019. If you could just share some qualitative thoughts on that, please.

Then secondly on B&I. One of your competitors recently, or this week, mentioned the contract structure in B&I potentially remaining more management fee-based over the longer term. I wonder if you share that view and if so, whether that alters structurally the margin of the Group or the opportunity there. Thank you.

Dominic Blakemore

Thank you, Neil. On participation rates, you've almost asked us the impossible question. The reality is there's so much going on within - I think you're particularly referencing sports and leisure and B&I in terms of the changed offer. There's an awful lot going on within that. We're seeing obviously return-to-office at different levels in different sectors in different countries at a different pace.

There's then client-specific, where we change to your second question, contract structures, which may be more attractive to some consumers. It then moves on to a free food program. So, it is different to what it was before.

Then I think to your point, the third element is yes, in some instances we've closed the traditional restaurant and opened up micro-markets; in others we've added micro-markets; in others we're bringing in food from the local community as well as food trucks and so forth. So, there's an awful lot going on. We obviously can measure that data to an extent within a site.

I think what we bring it all back to is what does this business look like in terms of 2019, and at the moment B&I is 11% bigger than it was for the same quarter in 2019. We know within that there's been a step down in office occupancy but there has been a step up in pricing, there's been a significant step up in new business wins, and we believe there's been a step up in the average participation onsite of those people who are in the office, and the dwell time they spend in our restaurants and facilities.

We look at the macro picture in terms of what is a very positive number, 111% to 2019 within B&I and one that we think we can still grow from as the return to office continues and potentially accelerates through the course of this year.

Then the equivalent number in sports and leisure is we're a third bigger than we were pre-pandemic, and a lot of that will be about participation as a result of, we believe, a lot of the digital innovation and frictionless solutions that we've brought into the major venues, which is facilitating the consumer spend, as well as the revenge spend we've talked about previously.

Palmer, contract risk?

Palmer Brown

In terms of the contract structures, within B&I you would see a mix of contract structures. Outside of North America it's predominantly fixed price in management fee. Within North America it's a bit of a mix. Really, it depends on the size of the account, the locations, and the client preferences, what kind of offer do they want.

You heard Dominic just mention more of a move towards free food programs; those would certainly be management fee 100% client pay. On the opposite end of the continuum, think about a P&L contract where there is no client contribution so it's 100% consumer pay. In the middle of those two

continuums, you would have what we refer to as subsidised contracts, so clients subsidise the offer to certain levels.

What we're seeing is a higher level of subsidy compared to historical levels. Maybe not a predominance on the 100% client paid management fee piece but certainly higher subsidies compared to historical levels. Clients have a preference to reduce those subsidies over time. It's incumbent on us to work with clients to try to achieve what they're looking for and the same time have a business proposition that works for us.

And as your question is leading to margin outcomes as a result of those contract structures, I do think it's a bit of a misnomer that there is a major difference between margins on those contract structures. They're a lot more similar than you would think and it really just depends on what the client is looking for. We've got certain sectors within our businesses that are predominantly management fee 100% client pay that have some of the highest margins in the Company. It just depends on the sector and what the clients are looking for.

Jaafar Mestari - BNP Paribas

Hi, good morning. I have three, if that's okay. Firstly, when you discussed Q2 and H2 growth components, I think you mentioned similar levels of net new and pricing between H1 and H2 with volumes the main difference. I'm just curious on that point if I remember correctly, you're budgeting on the assumption of inflation staying where it is right now and your pass-through being similar. It seems like your peers are basically budgeting assuming inflation ticks down into H2, certainly on margins, and seems they would expect that to help a little bit into H2.

Then on the US tech sector, you made some comments. I'm just wondering if you could remind us of your factual exposure there, some of which are known clients to you? Where are the puts and takes there in the Silicon Valley between return to the office and layoffs or slow hiring as it's irrelevant because they weren't in the office in the first place, for example?

Then more open-ended, just keen to hear a bit more about commercial strategy in Europe. You had a lot of exploratory initiatives there, buying brands in Germany, launching brands organically in France. What's more important going forward? Is it that frontend, the products, the brands, bringing US brands into Europe, or is it relentlessness on the backend, the pipeline, just making [Google Europe] better at signing and retaining?

Dominic Blakemore

Jaafar, your second question; you said our what exposure in North America?

Jaafar Mestari - BNP Paribas

The large tech companies, some of them are known clients for you. Is that something you're able to refer to on the publicly available information or the trade press reports?

Dominic Blakemore

Yes, sure. As I said earlier on the call, our global exposure to tech is 5% of our total revenues, and obviously what we're seeing in terms of announcement of the reset or restructuring that's going on is around 5%, 6%, 7% of the global workforce. I think that's how we're looking at it. Obviously, that would be weighted to the west coast, but I think you also have to remember that those workforces increased significantly through the pandemic. In many ways, it's still a process of return to office.

From our point of view we may yet see more people in the office than before the pandemic but less than it could have been because of the adjustments that were taking place. Which is why at the moment we're very focused. Look, for a decade we've been very focused on helping our tech clients provide the very best offer to their colleagues. We're very focused now on helping our tech clients manage the greatest efficiencies. So, a slight change of emphasis but we feel we can respond to that.

On commercial strategy in Europe, I think your answer was in the question. We really are absolutely focused on relentless execution on growth and retention. There is a huge market opportunity, the pipelines are there.

We still - despite the success that we're enjoying in continental Europe in particular, our conversion rates aren't yet anywhere near the level of North America. We see further opportunity to sustain those growth levels through even better execution. A lot of this is about better data on the pipeline, better management of the sales process, as you heard Palmer say before, and a real focus on the quality of our core offers.

That said, we felt it was very important to have a broader church of brands within B&I for different clients. I think Exalt in France and Food Affairs in Germany have been extremely successful for us, as has the acquisition we made in the Nordics which gave us a more premium food offer. I think those have been absolutely critical in underpinning the growth that we're delivering because we have a simply better offer.

If there's one area we would be focused on within the offer, it would be opportunity to deliver a micro-market-type solution to clients in Europe, but really as I said, the answer was in the question in that it's about relentless execution.

Palmer Brown

In terms of the shape of the growth, we felt coming into the year that the shape of our growth for the full year would be around thirds, roughly a little

more than a third from net new, the same from pricing, and perhaps just slightly lower for the volumes.

The first quarter is really in line with what we expected. That net new of 5.5% is playing out. The pricing of 6.5%, that may taper a bit as we go through the year but it's certainly something we're very focused on to make sure we try to keep pace at that unit margin level.

Then the volumes will be the biggest regression over the course of the year. That's primarily due to comps and as return-to-office starts to wind down.

That's pretty much the shape. It's pretty much consistent with where we thought it would be coming into the year. We'll watch it as the year unfolds.

Dominic Blakemore

Thank you all very much for joining us today and we look forward to speaking with you for the half year results in May. Have a great day. Thank you.