Compass Group
2023 Full Year Results

<u>Presentation</u>

Dominic Blakemore
Chief Executive Officer
Good morning and thank you for joining us today. 2023 was an excellent year for Compass. We're building a strong, balanced and sustainable growth model across the Group. Revenue exceeded £31 billion and operating profit increased to £2.1 billion, with margin up by 60 basis points. We generated an operating cash flow of over £1.8 billion, giving us flexibility to invest in the business and to return surplus cash to shareholders. In addition to the almost £1 billion we returned in 2023, we've announced another buyback of up to $500 million, depending on the M&A opportunities.

Our value creation model is generating attractive, compounding shareholder returns. Today we'll show you how we create value through our operations by focusing on our MAP framework to drive growth and operational efficiencies, delivering profit growth above revenue growth. Increased cash generation gives us flexibility to invest in the business organically and through strategic M&A with attractive returns. We've a truly exceptional business with significant structural growth potential which is exciting for the future.

But first, Palmer's going to take you through the results.

Palmer Brown
Chief Financial Officer
Good morning everyone. Our strong financial track record continues with operating profit up by 30%. This was delivered through organic revenue growth of 19% and an operating margin of 6.8%, each at the higher end of our guidance. Looking at the components of revenue, net new business continued to be strong at around 5%, with pricing and volumes both increasing by around 7%. As anticipated, volume growth normalised in the second half as we moved further away from the pandemic-impacted comparators.

Growth continues to be broad based, with similar net new across the regions. Revenue growth, together with balanced margin progression, resulted in a strong profit performance across all of our regions. Group operating profit increased to over £2.1 billion. Interest was £136 million and our effective tax rate was around 24% in line with our guidance. As a result, earnings per share were up by 37% and in line with our policy, dividends grew by the same percentage.
For fiscal 2024, we expect interest costs to be around $225 million, reflecting higher net debt in line with business growth and increased interest costs when we refinance in 2024. Our effective tax rate is expected to be around 25.5% due to the higher UK

Internal

corporate tax rate. Our operating and free cash flow conversions were strong at 86% and 58% respectively.

CapEx was 2.9% of revenue, lower than our historical levels, but is expected to be around 3.5% in 2024 as we capitalise on growth opportunities. There was a working capital outflow of just under £90 million in 2023 and we expect something similar in 2024. Our operating model gives us confidence in our ability to deliver ongoing margin progression. Despite persistent inflation and the drag from higher new business growth, we increased margin by 60 basis points in 2023. We achieved this through mitigation and appropriate pricing and by utilising overhead leverage, which was meaningful given our high revenue growth.

Looking ahead, while food inflation has eased, particularly in North America, labour inflation remains heightened. Our blended inflation rate has reduced slightly to around 7%, but it’s still high by historical standards. The good news is, we understand the operational levers within the business. We’ve got to continue working hard but our increased size unlocks purchasing scale opportunities, cost efficiencies and overhead leverage. There’s lots of opportunity in our back-of-the-house processes too. Digital tools and improved insight will help us focus our efforts and we’re just starting on these projects now.

Our business has a natural profit hedge as we balance revenue and margin. Currently we’re benefiting from faster revenue growth with macro pressures and increased operational complexity helping to drive outsourcing, together with higher pricing. However, inflationary pressures, mobilisation costs and less mature contract mix make margin progress more dependent on operational leverage. If revenue growth were to slow from lower new business or lower inflation in price, we would likely benefit from stronger margins as there would be a reduced drag from inflation and mobilisation of new business. Our contract mix would also be more mature. In either scenario we expect our business to generate strong profit growth.

Our capital allocation framework has delivered value for shareholders over the cycle and remains unchanged. First and foremost, our strong balance sheet enables us to invest in the business to support growth. CapEx and M&A enhance our competitive advantage and complement our strong portfolio of brands and capabilities. We have an attractive M&A pipeline and while remaining disciplined in our approach, we expect to increase acquisition spend this year to capitalise on these opportunities. Dominic will say more about this in a moment.

As evidence by our share buybacks, any surplus capital after investing in the business and paying a dividend is returned to shareholders, keeping our leverage within our target range of 1.0 to 1.5 times. Our strong cash generation and disciplined use of capital means that leverage has reduced from 1.3 times to 1.2 times. This is despite investing £1.2 billion in the business through CapEx and M&A and returning £1.6 billion to shareholders in dividends and share buybacks.

Internal

While investing in the right opportunities, we are also continuing to tighten our portfolio as we increase focus on our core growth markets. We've exited nine tail countries where we had relatively small operations with limited growth potential and higher levels of risk. Our strategy is to go deeper in our larger more developed markets which offer better prospects. During fiscal 2023, our net spend on acquisitions was just over £300 million, mainly in the US and UK. In November we also agreed to acquire HOFMANNs in Germany. This ongoing reshaping improves the overall quality of our business and better positions us for future growth.
The role from these acquisitions and disposals on fiscal 2024 is small, reducing revenue by around $100 million. You will have seen our guidance for 2024. We expect constant currency operating profit growth to be towards 13%. This is comprised of high, single digit organic revenue growth with net new business growth in the range of 4% to 5%, coupled with ongoing margin progression. Finally, a reminder that this is the last time we report in sterling. From now on we will be switching to US dollars to better reflect our business exposure and reduce earnings volatility.

Now, back over to Dominic.

Dominic Blakemore
Chief Executive Officer
Thank you Palmer. The prospects for sustained higher growth are exciting. Investments we've made in our people and processes underpin our strong results. They've enhanced our competitive advantages and will continue to support future growth. Before the pandemic, growth was driven by North America. Their success enabled investment in different operating models such as brands like Unidine and the digital capability of Compass digital apps and E15, which has helped to sustain attractive growth rates. The success of the model is evident and we're now copying that approach across the Group.

The evolution of our operating model continues. We formalised best practice sharing and invested in sales and retention teams globally. These actions build our growth culture and are reflected in our strong results. Annual revenues from new business wins were £2.7 billion, around 40% higher than 2019, with almost half of this coming from first-time outsourcing. Retention remains excellent at 96.5% and as expected, net new business growth normalised in the 4% to 5% range, above our 3% historical level. Most importantly, there's a lot more growth to come.

We have five clear priorities to support our strong momentum. Focusing on significant growth opportunities in our core markets, targeted regional priorities, enabling higher growth and further efficiencies, increasing the flexibility of our operating model, capturing future sources of growth through disciplined M&A and nurturing our talent and developing the next generation of Compass leaders.
Taking each one in turn, our addressable market is worth at least $300 billion and despite being the global leader in food services, our market share is less than 15%. With about half still self-operated and competitive accounting for the other 35%,

there is a significant runway of growth for many years across all regions and sectors. We're improving the quality of our portfolio by focusing more on the significant opportunities within our core markets. By doing that, we are maximising our scale benefits, regional insights and sector expertise. Most of the sectors are underpenetrated, with over 50% still self-operated across healthcare, senior living and education.

Beyond the obvious focus on MAP 1 and 2, there is a continued opportunity to go deeper on processes, compliance and real-time data to drive better decision making under MAPs 3 to 5. The priority is to capture growth varied by region, reflecting different market dynamics and maturity. Our excellent track record in North America continues and with 80% of the market still available, the opportunity for first-time outsourcing and market share gains in existing sectors and subsectors remains significant. Innovation and investment in digital processes are unlocking further growth and our scale helps optimise productivity and procurement efficiencies. Arguably there is an even larger opportunity in Europe. The market is less outsourced and has lots of potential and despite being the regional leader, we have still only a 7% market share. Our business is enduring a strong acceleration in net new business growth. This is driven by both higher gross new business wins and improved retention. This performance is a result of a growth transformation program we began before the pandemic, investing in CRM tools to support sales, upskilling our people through targeted training and leveraging best practice to drive a growth mindset.

New business wins and retention can all be tracked and analysed in real time, with dashboards indicating conversion rates, pre-emptive renewals and weighted probability of a potential pipeline. What's exciting is the opportunity is huge and there are still many improvements to be made. Europe is now in good shape with the foundations in place to sustain strong growth for the future, it's becoming increasingly complex to operate in our industry, managing risks and adapting to heightened clients and consumer expectations.
The weather is bringing people together. Health and wellbeing, digital concepts or sustainability, food has become increasingly important. As we help clients to choose their own organisational objectives, they're placing more value on our services than ever before. We're becoming more embedded, which plays to our advantage. By evolving and improving our model, we now have a wide range of solutions to suit all requirements. Wellness, digital apps, grab and go convenience or industry leading sustainability initiatives, we have the tools. So increasingly clients consider us a strategic partner, with shared ambitions creating powerful, long-term partnerships. As Palmer mentioned, investing to support growth is a key priority and helps diversify our operating model further. We have a strong track record of M&A and have added significant value over time by building a portfolio of brands to differentiate ourselves to get closer to our clients and consumers. Some of our most successful brands, such as Bon Appetit, Canteen and even Foodbuy were all acquisitions and have grown into sizeable businesses over the years. They're great examples of how our capital allocation creates value over time.

Currently there are some attractive bolt-on M&A opportunities with complementary capability, sector expertise and adjacencies with strong management teams. A great example of this is a recent acquisition of a German business which manufactures high-quality meals at scale distributed through an established network. As a result, we're likely to increase our M&A expenditure this year compered to 2023.
Developing our people is vital to our ongoing growth prospects. The depth and breadth of our talent is really strong. I've seen firsthand how internal succession creates continuity in our unique decentralised structure. Succession planning is deeply embedded in our organisation and I'm delighted that our recently announced management changes were filled internally. Training and development spans all levels and last year around 50,000 of our leaders and unit managers went on one of our advanced training courses.

All of this underpins my confidence in Compass sustaining a strong track record of continued growth. The business is in great shape operationally and financially and perfectly positioned for a more focused growth phase. We're benefiting from favourable market dynamics right now, but it's more than that. Our size, strength and scale enables us to invest back in the business, improving our competitive advantages. Focusing on the most attractive opportunities, supported by our growth culture, will sustain our success. The powerful combination of higher operating profit and strong capital allocation will generate long-term compounding returns for our shareholders.

In a few days' time, our North American CEO, Gary Green, will step down after nearly 40 years at Compass. Gary has been instrumental in building a remarkable business and the most successful in our portfolio. Many of the proven processes and strategic initiatives he's implemented in North America are now being embedded elsewhere. His track record is unparalleled. I'm grateful for his support and his friendship and on behalf of everyone here at Compass, we wish Gary every success.

I'm delighted Palmer will take over North America. I can't think of anyone better to lead the business into the next phase of growth and a very warm welcome to Petros Parras as our CFO. Petros has done an excellent job in Europe and I'm looking forward to working closely with him in Compass's next chapter of exciting growth. We look forward to introducing Petros to you in due course.
Now over to Q&A.

<u>Q&A Session</u>

Jamie Rollo – Morgan Stanley

Thanks. Good morning everyone, three questions please. First, the net new contract sales growth of 4.6% implies quite a sharp slowdown with 5.2% in the first half, so around 4% in the second half. Could you just talk a bit about that please, what caused it and your thoughts on the 4% to 5% target for 2024? Secondly, just on the full year 2024 profit growth guidance of 13%, it looks a little conservative. It looks like you're not factoring in any volume growth and also pretty modest margin growth and

it's well below your peers Aramark and Sodexo. So any comments on why that might be the case and your level of conservatism?
Then finally, just on the M&A, clearly it's at a heightened level and quite a big start to the year. Is there any particular focus on M&A in terms of verticals or geographies and any scope for upsizing the buyback at the first half if it doesn't come through?

Dominic Blakemore
Jamie, good morning and thank you for the questions. So I'll speak to net new M&A and then maybe let Palmer speak to profit growth and the buyback. So first of all on net new, as you rightly say, net new was 5% in Q1 and 4% in Q4. A couple of factors behind that, one obviously we've got a restoring base as we see the COVID volumes come into the calculation. Secondly, there's a lumpiness to our net new and so I don't think we should really read too much quarter on quarter. The 4.6% for the full year was a good number and clearly firmly within our range of 4% to 5%. I think what we think is more important is the sustainability of that range as we go forward.
So first of all, look, in the near term, as we reported, we sold £2.7 billion ARO of new contracts in 2023. That's broadly 9% gross new and with a reported retention rate of 96.5%, that gives us good confidence going into 2024 that we can sustain that level of 4% to 5%. In addition, we've got good pipelines in all of our major countries. Our conversion rates are higher than they've been historically and that gives us good confidence again of sustaining that level of growth through 2024.
I think the most important outcome, we've talked about this before, has been the performance outside of North America and particularly in Europe. So North America is really sustaining the net new contract performance on a much bigger base than we saw pre pandemic. We're now seeing that level of growth in the other regions. We've now seen it in Europe for two consecutive years and we've got strong expectations of a third consecutive year of good performance in that region, given what we know about the mobilisations and demobilisations. So look, our ambition and aim is to be within that 4% to 5% range, which is 1% to 2% higher than we saw historically.

If I take the second part of that question was sustainability of that over time, we shared again today our market share data. Globally we have a 15% market share, in North America a 20% market share, outside of North America it's a 7% market share. So we think there's a huge runway for growth and for sustaining this performance and I think we have both the offer in the complex markets as the strategic partner of our clients and also the proven processes which will enables us to continue to win at the levels we need to see.

If I pivot to the M&A question, the M&A we've reported today is twofold. One, the exits of nine tail countries and a reminder that 20 of our markets make up 95% of our profit and growth. Then of course the acquisition of HOFMANNs. But I think the real point here is that all of our activity on portfolio and M&A leads us to how do we sustain the 4% to 5%. We talked about going narrower and deeper. We see huge opportunities in our core countries and core sectors and everything we're about is how do we double down, focus Group resources, Group processes and capabilities to continue to deliver that.

The tail of countries we've exited were small markets or single contract countries in the oil and gas sector, or complex markets like Argentina from a geopolitical standpoint. So we feel that frees up Group resource and time. Then on the M&A side, it's not just the HOFMANNs deal that we've announced today, but we did a number of further deals in the canteen vending space in North America, the infills that give us the capabilities to sustain attractive growth in that subsector, but a number of Foodbuy deals in the UK, which gives us deeper presence and a greater efficiency there.

The HOFMANNs deal we've announced today is really attractive. It gives us access to the fastest growing sector or subsector in the German market, but it also gives us a capability or technology where we can serve into SMEs in Germany, we can use it to have an offer that can address variable footfall on Mondays and Fridays. It gives us access to the healthcare and education sectors in Germany and of course with the frozen product, we can deliver into other markets from the production footprint that we've got there.

So we think those are great examples of how we can really focus on the core to sustain these growth levels and everything we've seen today in terms of pipeline conversion rates and so forth gives us confidence that we can do that.
Palmer.

Palmer Brown
The profit growth guidance of towards 13%, that would reflect our best view of the likely landing spot for the year. I think it's reflective of the portfolio actions that Dominic just referenced. The strength of the new business wins is something that's really helping propel that, the £2.7 billion trailing 12 months with 9% gross new, question about the timing of those mobilisations, but that should come through, the vast majority of it should come through next year. We will get ongoing margin progression, the extent of which will really depend on the rate of inflation more than anything.

At this point we feel pretty good about where inflation is heading, at least compared to several months back. We think there's an opportunity to capitalise; we're stressing that with each of our businesses. But we do caution to say we've been wrong about inflation before, so that's why we're taking a really balanced approach there. Jamie's reference on the volumes aspect, we're not counting on any further volume recovery at this point. You saw the volumes really recover over the course of the last 18 months, starting with North America, catching up with the other regions at the end of last year. We're not counting on anything further going into 2024. Might there be a bit of potential upside? Yes, there might be and if so, we'll gladly take it, but that's not something we're necessarily counting on at this point.
That 13% is what we feel like is the likely landing spot for the year and we feel good about that result being a nice, solid result for the business overall.

Jamie Rollo – Morgan Stanley
Thank you, in terms of the buyback?

Palmer Brown
Yes, in terms of the buyback perspective, the $500 million that we announced today, is really reflective of a few things. It's the leverage landing spot for fiscal 2023 of the 1.2 times, the ongoing strong cash generation that we have and as much as anything, the prospects of further M&A activity over the course of the year. Dominic referenced the HOFMANNs deal that we recently announced that should close in the coming weeks just depending on competition authority approval. We have a number of normal infill deals already in the works.
But then maybe a bit different this year is just the lumpiness of some of the opportunities that are there in the pipeline. In fairness, we've probably been a little bit underwhelmed by the amount of M&A activity that we've been able to capitalise on in the last couple of years. We'd like to think that with some of the prospects that are here this year, we could get a heightened spend. So that $500 million number that you see is reflective of those prospects, the ability to have flexibility within that. We view it that depending on what happens in the first half, we can make some decisions plus or minus at the half year. So really the M&A pipeline would be the biggest variable within the buyback figure.

Simona Sarli – Bank of America
Yes, good morning gentlemen and thanks for taking my questions. So the first one is a follow up on the net new business wins which you are indicating to be plus 4%, plus 5% for fiscal year 2024. How should we expect that to be broadly split between H1, H2? Do you expect the contribution to be even or maybe a little bit more skewed towards the second half of the year?

Secondly, again another follow up on volume growth. You are assuming no further volume recoveries, especially North America. Can you put that in the context of office occupancy rates still being at 50%, so substantially below pre-COVID levels? Third point, on the HOFMANNs deal, can you provide a little bit, like some financial metrics, like revenue margin growth? Thank you.

Dominic Blakemore
Thank you, Simona and welcome. If I just take two and three and then come back to Palmer on the split of net new. Just with regard to volume growth, I think the first thing to say is we're pleased with the volume growth we've seen in B&I thus far. So the B&I growth of 30% on a full year basis has seen very strong net new. We translate it counterintuitive, but we really are a strategic partner for our corporate clients as they work to bring their colleagues back into the office. In quite a complex landscape, we talked before about stainability, about digital, about wellness, we see a huge opportunity to continue to outperform within the B&I sector.
Secondly, the volume has recovered nicely. You referenced 50% office occupancy. I'm not sure that's what we're seeing in our estate. It really is very different across countries and cities. Certainly for our estate in the UK, we talked about being at an

average one day per week less than we were pre-COVID. I think that gap is closing, it's more like three-quarters of a day on average to a half. We've seen a number of the European cities we cover strongly and likewise on the East Coast, we still see some lag on the west coast and in tech.

But I think the narrative that we're hearing and seeing now from many of our clients and is being made public is no, look being in the office is important for growth, promotion, for mental health and wellbeing and also we're seeing reports now, aren't we, about the quality of food consumed in the office versus the home. So I think there's a lot of reasons to believe that we may yet see further volume come back.

On the flipside of that coin, look we are seeing some restructuring, aren't we, we're seeing this in consulting, we're seeing this in professional services as things tighten in the near term. So I think that volume recovery gives us a little bit of a hedge against what could be volume impacts from any headcount downturn and therefore leaves our heightened [digit] growth expectation for 2024 intact with no volume rest.
Then look, in terms of HOFMANNs, we will provide you with those numbers as and when the deal is concluded and confirmed and we can do that offline.

Palmer Brown
In terms of the revenue breakdown, we view the likelihood is that net new and pricing will sort of work inverse of each other as the year progresses. Net new perhaps a little lighter in H1 and picking up in H2, pricing the opposite, a bit more in H1, waning a bit in H2 depending on the rate of the inflation curve, each of those blending out to that really high single digit revenue for the year that our guidance applies.

Vicki Stern – Barclays
Good morning. Just firstly coming back on retention, I think retention fell back a little bit to 96.5%, albeit still incredibly high levels, just particular segments or regions to flag where things eased off a bit and just more broadly, I suppose, coming back to the bigger question, any risk that you think that 96.5% could trend back to close to 95% where you were before COVID?

Second one is just on working capital. I think this business used to typically see an inflow of a few tens of millions each year, but you guidance for next year is for another outflow. Just what's going on with working capital and what should the direction of travel be more medium term there?

Just finally on CapEx, obviously you came in again slightly below the 3% guide, but you are certainly guiding for 3.5% CapEx next year, just again a reminder on why you think you'd come in lower than that 3.5% range given that net new has been so high? How would you think about that, is 3.5% really the right landing spot going forward?

Dominic Blakemore

Thank you, Vicki. On retention, look we're very, very pleased with the retention. I think what's the step change in retention from those pre-pandemic levels has been our performance in Europe and rest of world. We don't put that down to extra tenure on contracts through the pandemic, we've actually seen billing and rebilling at normal levels. We think it's really about the – I mean first and foremost we've been working very, very hard on the quality of our offer over many years. That takes a while before its recognised. Secondly, we've been working incredibly hard on our core SAG retention processes and really rolling that out with discipline across those markets. I think we're being rewarded for that.

I think there will always be a little bit of variability in the number quarter by quarter or [LCN] just based on larger individual contracts, particularly [white] losses that may drop in. So I don't think there is anything that is concerning us with regard to sector or country. I think actually the reverse, we see opportunity to consistently do better. Perhaps those gains may be more marginal as we go forward, but we remain incredibly focused on that. We know where our outliers are from a performance standpoint and we're working really hard to further improve their contribution. We work really hard to continue to extend contracts so that fewer contracts are coming up for bid.

Actually part of our portfolio process is to revisit some of those markets which may have weaker, long-term retention rates because of the nature of the markets, which gives us greater sustainability. So I think you heard me say in the earlier answer, I think everything we're working on at the moment is about how we get all of our KPIs to be more consistent, more sustainable at these higher levels.

Palmer Brown
From a working capital perspective, as much as anything it's reflective of geographical and slightly different business mixes that are here. We are much more balanced from a regional perspective when it comes to growth. The MAP 2 or consumer business is a bit lighter outside of North America than within North America. So as we're accelerating outside of North America, it's much more MAP 1 or client paid focus that has a bit more working capital tied to it. So it's really the geographical and business mixes as much as anything that speaks to that slight shift in working capital.

Then from a CapEx perspective, yes we do view the 2.9% of fiscal 2023 as an aberration. We are continuing to model 3.5% internally. I'll tell you that just from the start to the year in 2024, we've had a nice start to the year with some new business wins. There are some CapEx tied to that. We do have line of sight to some timing differences between last year and this year, so we do think it will turn more towards that more historical 3.5% level.

Leo Carrington – Citi
Thank you, good morning. Two questions from me. First of all, in terms of retention rates outside of North America, they keep improving and driving the overall

progression, how do you see the scope for further gains? Do you see the regions normalise around similar levels or should structurally North America remain slightly hedged, do you think?
Then secondly, in terms of the exit rate of pricing and cost inflation, I suppose these are in line with the figures you gave for Q4, but how do you expect the H1-H2 progression to unfold in terms of I suppose gradually tracking down towards CPI type levels?

Dominic Blakemore
Thank you. Look first of all on retention rates, there is a structural difference between North America and the rest of the world in terms of the average length of contract. So I think that is likely going to drive a delta of difference. We use significant capital in North America, particularly within sports and leisure and higher education, typically giving us longer contracts. We have obviously less presence in higher ed and sports and leisure outside of North America, albeit they're sectors that we see as being of significant opportunity. So look, I think there's likely to be a difference in those metrics between the US and the rest for a while as there is in a few things. But the opportunity for us is to continuously improve and close the gap between the regions and to continue to eke out marginal gains in the US performance.

I think at these levels the retention is absolutely fine with the gross new business opportunity that we see and that's what we believe allows us to sustain the growth rates we've talked to. But obviously we will keep working incredibly hard to improve things as we go forward.

Palmer Brown
From an inflation perspective, probably the first thing to just remind everyone is that the blended CPI that you often see is not necessarily reflective of our cost inputs. So we're more closely aligned to food away from home or employee or hospitality labour indices, views of that nature, which we're typically running higher than CPI. With that said, last year we had blending inflation of around 8% or so for the full year. Currently it's sitting around 7%. Food is moderating a bit in some different places. Labour is remaining persistently high.
As the year progresses, we could foresee further moderation on the food side, certainly in certain pockets. I think the labour is one that's still a bit more of an unknown. Keeping in mind the relative weightings we have, labour would be the higher of the two from a cost input, from our perspective. It's certainly one we're keeping an eye on. I think I referenced earlier that we feel like from a pricing and inflation perspective we're about at equilibrium at this point and the opportunity to potentially capitalise as the year goes on, it's certainly one that we're having lots of conversations with respect to the business and fully expect to do that if that does in fact materialise.

Harry Martin – Bernstein
Good morning everyone. The first question I had was just on the guidance of the scope impacts where in the presentation I think you say that comes through at

average margin. I guess that's potentially a little bit surprising given the disposals likely would be in lower margin countries and then also I just wanted to clarify that guidance includes the HOFMANNs impact the next year, which the numbers I've seen reported has a margin above Compass's average level as well. So I wonder if you could just give any more colour on that part of the guidance.

Then just to check some MAPs on the buyback level, you end the year with $4.5 billion of net debt, I make around 1.3 billion committed [inaudible] from the buyback, the payment of the final dividend and the HOFMANNs deal, but even if free cash flow was only flat year on year next year, you'd still get to around the low end of the leverage target given the EBITDA growth. So is that the right interpretation, the $500 million is set to get to the bottom end and then there's scope to do quite a bit more in terms of M&A or cash returns within the 1.0 to 1.5 times through the year? I just wanted to check that that is right philosophically. Thanks very much.

Palmer Brown
In terms of the margin impact from the net M&A, there are a number of countries within the disposal group that would have had higher than average margins if you think of Argentina, which was quite flatter in the P&L, Angola with the DOR aspect of that. But a lot of that is, we just did not view that to be long-term growth potential within our core focus, so we felt like it was the right thing to do for the business, to really focus on those core growth opportunities that are there.

HOFMANNs has the potential to be margin accretive over time. I think we've just got to see the way all the synergies fully integrate over time. So the 13% that you're seeing is reflective of everything that we see as of today, so the role of the base business, the new business coming on board and the net M&A that's there.
From a buyback perspective, probably just to go back to what we said earlier with the M&A being the largest variable that's there, we've had spend last year of around £300 million, average over the last couple of years have been £300 million to £400 million or so. We're looking at single opportunities within the pipeline that would be at that quantum in and of themselves, so we do think this year could be a more lumpy year from an M&A perspective. It's one we're excited about, but that's why we're keeping a bit of flexibility within our buyback and our overall framework.

Jarrod Castle – UBS
Thank you, good morning everyone and Gary, wish you well on the great service to Compass and your clients. I'll kick off with that and especially because we've got Palmer on the line, I guess just in terms of the US strategy, Palmer, any thinking in terms of does anything need to be changed? I guess you were in the inside, now on the outside looking in, but it doesn't seem anything is broken, so is it just business as usual? Be keen to get maybe some initial thoughts on how you see that business.
We've heard a little bit from consumer companies some impact from weight loss drugs. I imagine it's not much of an impact for your business, but be keen to just get some thoughts there as having any impact in any of your contracts at the moment.

Then just lastly, free cash flow conversion under 60%, do you think over time this will go up, maybe as sales growth slows somewhat? Just some colour on free cash flow conversion would be useful, thanks.

Dominic Blakemore
Thank you Jarrod for those questions and your recognition of Gary in particular. Look let me take the CPG question and then I'll hand over to Palmer for one in his old role and one in his new role. Look just on the weight loss drugs, I think what we're seeing is ever more interest and excitement around wellness and nutrition and we think that's a really important trend for us. We're probably the biggest employer of nutritionists on the planet, as well as the biggest employer of chefs. So if we can't help our clients and consumers with the meal choices, the menu choices and in some instances, even diet design, then I'm not sure anyone else can. So I think that trend is positive for us.
When it comes to actual products of course, we work with FMCG to look at how the snacking category and the beverage category is changing to ensure we've got the beverages which are on trend. We aren't seeing any impact at the moment from any of the well-documented new drugs.

Before I hand over to Palmer, just on the US strategy, the point that I would make is the one thing we're very pleased about, is the continuity of leadership that we're achieving within the North American business. We were very aware that we've had very long tenure of some established leaders of the different sectors within the North American business, whether it's within B&I or others. We're really pleased that all of our appointments have been happening from within, with an established group of the next set of leaders who have got significant tenure within the Compass business, so know the way we do things, know our processes. So we're really pleased with the continuity strategy. You've seen that today both in Palmer's appointment and Petros's appointment. But I think that gives us a good platform to continue success.

When it comes to early observations in his new role, I'll hand over to Palmer.

Palmer Brown
Jarrod, if I knew it was going to be fair game for me to be asked about the new role, I should have turned over a lot of the new CFO role questions to Petros along the way. But no, from a North American perspective, I mean firstly it is difficult to imagine Compass North America without Gary. Gary came over in 1994 when Compass first arrived there and has really been at the heart of building a great business. I think Gary would be the first to tell you that the business is full of really exceptional people doing a lot of really good things. A lot of best practices that we've developed internally are now being utilised globally and this is what you're seeing in some of the step change outside of North America. We feel good about the talent that is there in North America.

In terms of opportunities that are there, I think we've got just a massive ongoing market opportunity. Roughly 80% of the market is still available to us, that's there.

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Roughly 50% of the healthcare and education markets still remain self-operated with really some great opportunities within those. Our focus will remain continuing to try to go after those.

I actually think from a MAP 2 perspective, a consumer perspective, we've got opportunity to continue to improve there. I think we've largely been a MAP 1 focused organisation over time, don't want to lose that at all, but what can we do to supplement that with a bit more from MAP 2. I think there's the potential there. I think there's some ongoing opportunity from a systems perspective, just really buckling down on the systems processes. When we look ahead at things like AI and what can we do to incorporate those into the business to drive efficiency and really help to continue the growth of scale that we've been able to deliver in North America. So really a lot of ongoing opportunity and great people to deliver it.
Then your last question from a free cash flow conversion perspective, really don't necessarily see a whole lot of lay up to the upside or risk to the downside. We think it's pretty solid where that is. Certainly we'll constantly try to do better and looking at Petros as I'm saying this right now and I'm sure he'll find a way.

Andre Juillard – Deutsche Bank
Morning gentlemen and congratulations for strong results. First question, I wanted to come back on inflation. You are mentioning more or less 7% expected inflation, could you give us some more colour about the split between food cost and labour cost? Regarding labour, could you also give us some more colour about your capability or difficulty to hire people and what we could deduct on the wages evolution?

Second question about profitability, you've been mentioning that you are still targeting more or less to be back to the level you were before the COVID crisis in terms of profitability. Could you give us again a timing for that or an idea of how long it will take to be back to that level? Thank you very much.

Dominic Blakemore
Thank you Andre. I will just take labour capabilities and then hand over to Palmer. Look I think we finished 2023 with over 600,000 employees globally. I think what that tells you is we weathered the post-COVID storm, as it were, on recruitment levels. We're also seeing a significant fall in the amount of agency or temporary labour that we had to use as we reopened sites. That means we'll start to train people in our core processes and get the benefits of consistency and continuity over time. We're seeing that already in our attrition and turnover rates falling by region. Over the last several months we've started to see that fall on an [LCN] basis for the first time.
But as we go forward and particularly given the facts of growth ambitions that we've described today, we really need to focus on how we recruit, retain and also how we use technology to support us in efficiencies within the kitchen, using AI in the back office to drive evermore efficiency for the benefit of our clients. This is always about how we become the employer of choice in our industry and I think we showed you in the presentation today how we can do that at scale by providing the best-in-class training at every level of the organisation continuously to really lock in and retain as

much of our talent as we possibly can. We think that talent and talent retention is the key enabler of the growth ambitions that we've got as we go forward.

With regard to profitability and return to pre-COVID margin, it's absolutely clear to us that there's no cap on the margin in this business. We will get back to the pre-COVID levels. As we've shown you today, there's a relationship between our sources of growth and margin progression. What we're confident about is that we will see margin progression yearly and that our profit will grow above our revenue growth, even at those higher levels of high single digit. We've seen a lot of operational leverage contribute. Unit margins haven't yet been restored and we believe over time that's where the opportunity lies. That will very much depend on the growth an inflation trends that we talked to today.

So look I think it's a positive outlook on margin. We measured about the pace of progress and it depends very much on growth but look, there's no limit, we'll get back and we'll continue to grow the margin of the business.

Palmer Brown
From an inflation perspective, as we said earlier that our current inflation we're seeing about a 7% blended inflation rate currently, food inflation would be a hair lower than that, 6% or so. We do see some regional differences there. It would be higher in Europe, continental Europe and the UK and a bit lower in the US just there and we're seeing moderation and potential for further moderation in each of those regions. Wage would be fairly consistent regionally and it would be a little bit higher than the food, so 7% or 8% or so on the wage front and pretty consistent across the different regions.

Dominic Blakemore
Thanks Andre.
Thank you all very much for your questions today. Before we finish, I just want to leave you with a few thoughts. We believe the business is in great shape, we have, as we discussed today, really exciting growth potential for the foreseeable future. We talked about entering a new phase of more focused growth and that really does mean that we want to be narrower and deeper, more focused on the core countries and the core sectors and very much our portfolio review and our M&A is absolutely about achieving that.

Our scale of strong cash generation continues to fuel the investment in our operating model in CapEx as we've discussed in M&A where we see really attractive opportunities over the coming years. Going forward, as we talked, we expect to maintain the mid to high single digital organic revenue growth and ongoing margin progression year over year, which will give us profit growth ahead of revenue growth and increase cash generation with long-term compounding returns.
I just want to say a quick thank you to Palmer on his last results call, at least for now. Well done, Palmer.

Thank you and we look forward to speaking to you again in February.

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