

Chief Executive's review

Confident for the future

Dominic Blakemore

Group Chief Executive Officer



2023 was a strong year for Compass. North America continued its long track record of excellent growth whilst Europe delivered a second year of net new growth in the 4-5% range. During the year, we continued to successfully capitalise on the dynamic outsourcing trends, resulting in another record year of new business wins and continued strong client retention.

We have a strong, balanced, and sustainable growth model across the Group. Our size, strength and scale enable us to continue investing in our operating model, further enhancing our competitive advantages. We have exited nine tail countries to focus on markets with the greatest growth opportunities and our strong cash generation continues to fuel investment in our business through capex and attractive M&A. The business is in great shape operationally and financially and well positioned for a more focused growth phase.

Group performance

The Group continues to perform strongly both in terms of organic revenue growth, which was 18.8%¹, and underlying operating margin, which improved by 60bps to 6.8%¹. As a result, underlying operating profit grew by 29.6%¹ on a constant-currency basis to £2,122 million¹ (2022: £1,637 million). Statutory revenue increased by 21.6% reflecting the strong trading performance and favourable exchange translation. Statutory operating profit, including charges relating to business acquisitions and reshaping our portfolio which are excluded from underlying operating profit, increased by 26.1% to £1,891 million.

Capital expenditure was 2.9%¹ of underlying revenue and net M&A expenditure was £304 million, which was largely spent on several bolt-on acquisitions, mainly in the US and UK. Subsequent to the year-end, the Group agreed to acquire Hofmann Menü-Manufaktur GmbH, a German producer of high-quality cook and freeze meals, and exited its small operations in Argentina and Angola. As a result of this and other disposals, including five countries in Central and Eastern Europe, Compass has further reduced its countries of operation to c.35 as it focuses on significant opportunities in its core markets.

Cash flow remains excellent, with underlying operating cash flow of £1,825 million¹ (2022: £1,351 million) and underlying free cash flow of £1,241 million¹ (2022: £890 million), representing strong conversion rates of 86.0%¹ and 58.5%¹, respectively. As a result, leverage (net debt to EBITDA) reduced further to 1.2x¹.

Our strong balance sheet provides us with flexibility to invest in future growth, where we continue to see exciting opportunities, both in terms of M&A, where we have an attractive pipeline, and organically, where the market remains buoyant. We therefore expect capital expenditure to be around 3.5% of underlying revenue in 2024, with net M&A expenditure likely to be higher than in 2023.

Strategy

We are a global leader in the provision of food services, our core offer, complemented by our targeted support services business. Our addressable food market is estimated to be worth at least \$300 billion, in the markets and sectors we currently operate in, with about half of the market still operated in-house. Heightened client and consumer expectations and inflation have contributed to the acceleration of growth, particularly in the conversion of first-time outsourcing, and we have clear strategic priorities to capture these opportunities.

Our portfolio of sector-specific brands enables us to differentiate our offer and leverage our industry expertise by creating tailored solutions for our clients to align with their own organisational priorities. This approach helps us become strategic partners to our clients with shared objectives across a range of initiatives, such as digital capability, sustainability, people development and increasingly as a trusted advisor.

Through our strategic pillars of People, Performance and Purpose, combined with our operational performance and capital allocation framework, we aim to generate higher compounding value for all our stakeholders over the long term.

People

At Compass, we know that our success is largely down to the skills and ingenuity of our chefs and front line teams. They lead the way in safe and sustainable food at scale, promoting healthier choices and creating great experiences for the people we serve.

We work to ensure that people who want to pursue a career in the food and hospitality industry can succeed with Compass. We encourage new joiners to make use of innovative tools, such as digital onboarding applications and training programmes, with more than 1,500 colleagues in our UK & Ireland business signing up to our landmark training and development scheme, Compass Career Pathways. Pleasingly, over 50% of those who have completed the programme have moved or been promoted into a new role.

Having people from diverse backgrounds in Compass is a huge strength for our businesses. In the US, over 17,000 Compass employees completed diversity, equity and inclusion training, whilst our Be the Difference conference in July 2023 was attended by more than 2,000 colleagues to discuss empowering front line talent, exploring neurodiversity and the importance of allyship.

We are also addressing inequalities and opportunity gaps within the hospitality industry by supporting women chefs with dedicated training, leadership development programmes and advancement opportunities. Our Women in Culinary (WiC) programme in the US is driving cultural change as well as career growth, igniting executive allyship and fostering kind kitchens.

1. Alternative Performance Measure (APM) (see pages 206 to 213). The Group's APMs are defined in note 34 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 34 to the consolidated financial statements.

Talent development and careers remain a key opportunity and is important for our people. We will continue to build out our Compass Academy concept and enhance career pathways in our markets with a particular focus on culinary and leadership skills.

Purpose

Our Planet Promise is Compass Group's global commitment to a sustainable future for all. It encompasses our values as an ethical, sustainable and inclusive business, together with our ambition to positively impact the world. Compass is committed to be carbon neutral worldwide on its Scope 1 and 2 GHG emissions by 2030, and reach climate net zero GHG emissions across its global operations and value chain by 2050.

Our ability to demonstrate progress in reducing our carbon impact and food waste is helping us to attract new clients for whom sustainability is a major focus. Most have their own ambitious climate plans and they rely on us as a trusted partner to help them achieve their sustainability goals. Together with Compass, clients and consumers in every market can navigate towards a less wasteful, healthier plant-forward lifestyle.

Reducing food waste is one of the biggest environmental challenges facing our sector, and therefore one where we have the greatest potential to make a significant difference. Our culinary teams and front line staff are instrumental in tackling this challenge, employing a range of diverse food waste reduction technology systems across our markets. This year, we made food waste reduction our top priority. Our target was to adopt food waste tracking technology in 6,000 locations and, with every region united in support, we achieved nearly 8,000 locations.

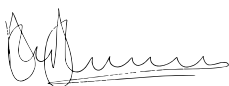
Summary

Performance this year has been pleasing across our key metrics of revenue, profit and cash. Favourable market conditions, persistent inflation and our flexible operating model continued to support strong balanced net new business growth across all our regions, with first-time outsourcing accounting for c.50% of new wins.

Our large addressable market has a long structural runway for growth and, with increasing complexity and heightened expectations from clients and consumers, we expect to sustain growth higher than our historical average. We have clear strategic priorities to capture these exciting opportunities by focusing on our core markets and evolving our operating model.

Strong profit growth and cash generation underpin our robust balance sheet giving us options for capital allocation. The total dividend for the year of 43.1 pence is complemented by a share buyback of up to \$500 million (£410 million), subject to M&A activity, in line with our recent returns to shareholders. As we continue to create value from disciplined capital allocation, we continue to explore attractive M&A opportunities to capture future sources of growth.

Looking further ahead, we remain excited about the significant global structural growth opportunities, leading to revenue and profit growth above historical rates. With our proven model of value creation through operations and capital allocation, we will continue rewarding shareholders with compounding returns over the long term.



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Group Chief Executive Officer

20 November 2023

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