# Compass Group- 2024 Half Year Results Analyst presentation

**Dominic Blakemore, Group Chief Executive Officer**

Good morning and welcome to our 2024 Half Year results.

We've had a strong first half.

Operating profit increased by 19%, driven by organic revenue growth of 11% and an operating margin of 7.1%.

The strong trading performance, along with our positive outlook, give us the confidence to raise guidance for underlying operating profit growth to towards 15%.

We are delivering sustained, balanced growth and the business is in great shape.

The global market opportunity is large, giving us a significant structural growth runway.

We are relentlessly focusing on our core markets where we are embedding proven processes and best practice.

We have strong competitive advantages, including our brands and scale, which have taken years to build and are difficult to replicate.

And we have scope to further unlock growth opportunities through investment, particularly in Europe.

The ability to invest is crucial in our industry.

Capex, which is mostly client related, supports new business wins, helps retain clients, improves the customer experience, and leads to longer contracts.

In-fill M&A further supports our strong brand portfolio and capabilities and is a great source of talent.

We're continuing to refine our portfolio, so we can increase our focus on core markets with better growth prospects and we're investing more in core systems and processes.

There's more detail on strategy in a moment, but with that I'll now hand over to Petros.

**Petros Parras, Group Chief Financial Officer**

Thank you Dominic, good morning everyone.

First, looking at the components of revenue growth.

Pricing trended around 5%, similar to the current blended rate of inflation we are currently seeing.

Net new - which can be lumpy - was 3.7% and slightly better than we forecasted at Q1.

We expect this to accelerate in the second half and to be in the range of 4-5% for the full year.

Volume growth of around 2.5% was stronger than we expected and there are several factors which contributed to that.

In B&I, the return to office continued to improve, particularly on Mondays.

There were more events in both B&I and Sports & Leisure, some of which were seasonal and are unlikely to repeat.

And we are benefiting from our stronger value proposition compared to the high street.

Looking forward to the second half, we expect volume growth to moderate as the comparatives get tougher, and we return to a more normal growth profile.

As a reminder, before the pandemic our growth was mainly driven by net new and pricing, with relatively little from volumes.

We're sustaining balanced growth across all our regions.

With double-digit organic revenue growth and good margin progression, every region delivered strong improvement in operating profit.

Constant currency Group operating profit increased by 19% to $1.5bn.

As expected, interest increased to $111m. For the full year, we expect interest costs to be around $235m, reflecting the acquisition of CH&Co.

Our effective tax rate was 25.5%, in line with our guidance.

As a result, EPS was up by 16%, and, in line with our policy, dividends grew by the same percentage.

We are using our strong cash position to invest in growth. At 3.3% of revenue, capex is normalising to our pre-pandemic rate. As Dominic said, capex supports new business growth and helps us retain clients, as well as delivering excellent returns.

For the full year, we continue to expect capex to be around 3.5% of revenue, as we mobilise more business in the second half.

One of our strategic priorities is to go deeper in our larger, and more developed markets, which offer better growth prospects.

In line with this strategy, we've exited a further four non-core countries and have agreed to exit Brazil, which is subject to regulatory approval.

We're also investing in our brand portfolio and flexible operating models. Net M&A expenditure was $373m, mainly related to Hofmanns in Germany. Note that this doesn't include CH&CO as it completed in April.

The impact this year from M&A and disposals, including Brazil, is immaterial.

For fiscal 2025, it's minus $200m revenue at average margin, which is minus 50bps of operating profit growth.

Our strong cash generation enables us to invest in our business.

We take a very disciplined approach to capital deployment.

Return on Capital Employed has recovered post-pandemic and is now around double the Group's WACC.

M&A unlocks future sources of growth and generates excellent returns over time.

Internal

Based on our strong trading performance and positive outlook, we have raised guidance for the full year.

We now expect constant currency operating profit growth to be towards 15% driven by organic revenue growth of towards 10%.

Now back to Dominic.

**Dominic Blakemore, Group Chief Executive Officer**

Thanks Petros.

We have three strategic priorities to sustain growth.

First, we are focusing relentlessly on our core markets and sectors.

Second, we continue to invest in in-fill M&A to unlock future sources of growth.

And third, we are nurturing our talent and developing our future leaders.

There are significant opportunities for organic growth in every region.

We estimate our addressable market to be around $300bn. And, despite being the largest in the industry our global market share is less than 15%, with Europe at only 7%.

Self-operators account for just under half of the market, and regional players about a quarter. Combined, they represent about 75% of the addressable market.

Experience has shown us that outsourcing starts in B&I.

As clients and consumers become familiar with the benefits of outsourcing, it starts to permeate other sectors, such as Healthcare and Education.

These sectors have the largest first-time outsourcing potential with over 50% still self-operated.

Even the most penetrated sector and most mature market - B&I in North America - has seen rapid growth from flexible operating models, such as unattended markets and vending.

The vending market is very fragmented. In the US alone, it is estimated to be about $25bn and we have a 12% market share, so there is plenty of further growth potential.

Compass has strong and proven competitive advantages which have been built over the last 30 years.

This includes the way we approach the market, through sectorisation and sub-sectorisation. Our brand portfolio helps us to tailor the offer to individual client needs. It is unique to us and difficult to replicate organically, as many were originally acquired.

Another advantage is the flexibility of our operating model, ranging from different food models to our digital or sustainability initiatives. Our thought leadership and solutions in these areas are often cited by clients as one of the reasons they choose to outsource to Compass.

Foodbuy, our Group Procurement Organisation, provides significant leverage when it comes to purchasing.

Over the last 20 years we have been growing our purchasing scale and investing in systems and data to give us the best cost advantage and compliance levels.

Learning from our success in the U.S., we have been scaling our procurement blueprint in Canada, the UK and Australia.

We'll be talking more about Foodbuy at our deep dive for investors and analysts in September.

And finally, our sales and retention and MAP frameworks which have been in place for decades.

MAP gives us insight into the operations of individual units, sectors, and countries, and supports execution.

These processes underpin our strong performance culture across what is a relatively decentralised business.

Our competitive advantages are most developed in North America.

M&A created the platform for growth with a portfolio of specialist, client facing brands bought as infill acquisitions in the late 1990s and 2000s.

They help differentiate our offer across the market enabling our sub-sectors to grow by 130% on average over the past 10 years.

We can also use multiple brands at the same site, giving clients an even more tailored offer and leading to higher customer satisfaction rates.

This helps us win new business and grow revenue with existing clients.

Consistent execution and communication of best practice is particularly important given the nature of our decentralised business whether that's through productivity insights; pricing support; purchasing excellence or sales processes and forums, our regions are now more connected than ever.

This is resulting in more balanced growth.

During the 2010s, North America was the main driver of the Group's performance helped by investment in capex and M&A.

As we invest and replicate "Compass Best Practice" elsewhere, we're now benefiting from sustained higher growth in all regions.

M&A further helps unlock growth and our approach is straightforward as we replicate our North American blueprint elsewhere.

We like high quality businesses that have unique capabilities or reach, with strong brands, strong management teams and a great culture.

We retain what has made them special and we drive benefit from procurement and back-office synergies, as well as providing access to best practice to accelerate growth.

And we have a proven track record of success.

In North America we've grown revenue for eight of our largest brands from $3bn, when they were acquired, to $18bn today, at an average CAGR of 11%.

By using this successful blueprint elsewhere, we are adding further sector and sub-sector expertise, and increasing flexibility in our operating model.

Recent examples include CH&Co in the UK and Hofmanns in Germany. They are different businesses, but both are great examples of high-quality acquisitions.

Internal

This is underpinned by the same financial discipline as we look for returns to exceed WACC by the end of the second year.

CH&CO has a strong track record of performance, a highly regarded management team and excellent brand portfolio that enhances our offer and capability.

It is an exciting addition to Compass, deepening our expertise and giving us better access to different sub-sectors, particularly in B&I.

Hoffmans in Germany produces high quality, cooked and instantly frozen meals which are distributed via an established network.

It gives us more flexibility in the way we serve customers in Healthcare, Education and B&I, and increases our reach to clients without on-site kitchens.

Using Hoffmans we can also better cater for specialist diets and serve customers on shoulder days when there are low volumes on site.

Our final strategic priority is to recruit, develop and nurture talent across all levels of our organisation.

It's a key priority for the team and a personal passion for me.

We've seen over time how the best talent is typically 'home-grown', so we're investing more in development programmes to cultivate our own talent for the future.

It's an exciting time for the business. We're further strengthening our competitive advantages, becoming an even more focused business, and growing strongly.

We have multiple levers to drive revenue and profit and are confident in sustaining mid to high single digit organic revenue, and ongoing margin progress, which will enable us to grow profit ahead of revenue growth.

This is supported by our strong capital allocation model, which enables us to continue our track record of generating long term, compounding shareholder returns.

Now over to QA. The operator will share instructions on how to ask questions.

Please remember that you must be connected by phone in order to ask a question.

Operator, over to you.

# Compass Group- 2024 Half Year Results

## Q&A Session

**Jamie Rollo - Morgan Stanley**

Good morning, everyone. Three questions, please. First, just on the net contract sales contribution, 3.7% [as you said], a bit better than you expected, but below the 4% to 5% target, and retention down nearly a point. Is that retention drop just a function of last year's second half losses, or have you seen any more losses this year? In terms of your confidence of the 4% to 5%, could you give us some figures for the ARO or the pipeline levels just to help us see if we can get the 4% to 5% for the full year?

Secondly, it looks like clearly you're outlining a case for a multi-year period of bolt-on M&A in Europe. Do you think you could do that at the same time as buybacks? Is there a feeling for the pipeline of M&A?

Then finally, if I can, just on margins, you're in the low sevens and probably will be in the second half. When do you think we can get back to the mid-7% pre-COVID numbers? Thank you.

**Dominic Blakemore**

Thank you very much, Jamie, and good morning to you. If I take the first and third and then ask Petros to speak to M&A and buyback. Look, 3.7% net new in the first half, slightly ahead of where we'd previously guided. We're confident on being within the 4% to 5% range on a full year basis. So the math says that we'll be in that range in the second half, which we're really excited by because it gives us strong momentum into 2025.

What informs that? You're absolutely right. The retention rate is about the losses we experienced in the second half of last year, which have now run off. So we see our retention rate improving in the second half. On top of that, if you look at our ARO new business wins for the last 12 months, they stand at $3.4 billion, which is some, I think, 15% ahead of where we were this time last year and is an improvement, again, on where we were on our last 12-month basis at the end of the first quarter.

So we're confident in the new business wins. We're confident in the retention rate improving. Both of those will show an improved net new in the second half and into 2025, which is very exciting.

In terms of margin, yes, low sevens, we've made 50 bps of improvement in the first half. We expect to make around half of that in terms of improvement in the second half. So we're pleased with the margin performance. Clearly, we've said the focus is on profit growing ahead of revenue. The scale of that improvement in profit ahead of revenue will really depend on the sources of revenue growth,

but we do expect to make continued margin progression. That means we will get back to where we were pre-COVID. There is no cap on our margins. It's really just a matter of time.

**Petros Parras**

Thank you, Dominic. Good morning, Jamie. I think on your question on M&A and share buyback, you have seen we continue to invest in CapEx. This remains our first priority. You heard us talking in the call about the M&A opportunities we have in Europe. I think the share buyback is going to be subject on the M&A activity we're going to be looking at for the next periods. We're happily placed within the 1 to 1.5 leverage ratio. It's conservative. We feel good about it.

**Jamie Rollo - Morgan Stanley**

Thank you very much.

**Vicki Stern - Barclays**

Yes, morning. I just wanted to start off on volume. Petros, in your prepared remarks, you'd mentioned we should expect H2 volume growth will moderate. Obviously, get that with the comps and so on. You also reminded us that pre-COVID the Group saw generally very little volume growth year to year. Is that what we should think about now going forward, or are there reasons why with the improved digital offer driving better participation, perhaps higher overall level of net new, we could think about volume growth, a smaller number than now, but a level of volume growth sustaining in the future?

Second one, just coming back on the retention, I don't want to labour the point too much, but just how much visibility did you have last year on those larger contract losses? I suppose when you sit here today and you're confident in the outlet for retention, how confident can you be, had you envisaged any of that coming at you last year?

Then the third one, and Dominic, you sort of touched on it there, the confidence in the 4% to 5% net new then as you look into the back half and into next year. Just, again, if you could update us on why we should feel good about that as the median term run rate now for the Group obviously elevated from where it was pre-COVID. Thanks.

**Dominic Blakemore**

Yes, thanks, Vicki. Let me take the two and three, and then Petros will speak to the question on volumes. Yes, look, we do have visibility on retention. We are aware of the retention pipeline. We know what business is coming up for rebid by quarter, by year. As you know, we work really, really hard on pre-empting retention. In some instances, contracts have to go to bid. Whenever a contract goes to bid, there is always a possibility that they could be lost.

We were probably a little disappointed with one or two of those losses and to the point that maybe one was unanticipated. That said, we did have visibility of the retention process being in train. We continue to have clear line of sight of the retention processes and confidence in the improvement that I've suggested today. In terms of the 4% to 5% net new, broadly speaking, with a 96%, 96.5% retention rate, we're looking at 8% to 8.5% gross new to achieve that range.

We see the gross pipeline to achieve that. We have a multiyear pipeline that we're constantly working on to prioritise. The data we have today is better than the data we've ever had. We have CRM in all of our countries outside of the US, and we are upgrading our systems in the US to give us greater data clarity and certainty. We're working really hard further out than we've ever done.

The reviews that we've conducted within the business over the last several months have all been about the pipeline to '25 rather than more near in on '24. I think that should give everybody confidence about the quality of our processes. We're excited about the size of the pipeline. Every year we see record levels of new gross pipeline, record levels of new business wins, and we still think there's a long way to go in terms of improving our conversion rates.

To close the gap outside of North America with the best-in-class conversion rates in North America will yield further opportunity for us. We're very excited on both metrics as we go forward. I should probably just add to that, look, everything we're doing right now is about increasing our confidence that we can consistently deliver at those levels. That's why you've seen us do what we're doing on the portfolio. It's exiting the tail countries which absorb management time where there's greater volatility, where there's shorter average contract life.

Where we're looking to buy, we're buying subsector capability, which means we have a broader offer for our clients, and we can offer them a multi-sector or a multi-brand solution in their core sectors, which I think differentiates us. We continue to invest in sellers. We continue to invest in digital. We're really excited about the capabilities that we have to offer our clients to sustain that. The 4% to 5% we really believe is the health of this business, and if we can sustain that with good levels of like for like on top of that, then that gives us the ability to deliver operating profit in the high single digits year in, year out.

**Petros Parras**

Thank you, Dominic. Good morning, Vicki. I think on the volume, you have seen the positive surprise in the first half, 2.5%. I think this is driven by more return to the office, some really good events in B&I, hospitality and leisure, as well as we're witnessing our offer becoming a very great value add for our consumers. Our gap to the high street has widened. I think in the second half, we're going to see still contribution from the volume like for like to a lower level.

Then thinking about this for the future, I think it's going to be a net positive as we think about our offer we develop for the future and definitely an area for us that presents opportunity on how we're leveraging more insights and data in the way we deliver service.

**Dominic Blakemore**

Yes, I mean, I might just add to that, Vicki, I think it's a really good question. We have said in our narrative today to look back at what our like for likes were pre-COVID. To your point, our offer today is different to our offer before. So it's more digital. It's less friction for the consumer. We are seeing different consumer behaviour. So we're seeing people dwell on site longer. We've seen them spend more. We're seeing more events.

The point Petros made, I think is really valid that the gap to the high street has widened and where we have consumers that are value conscious, that's very visible. It means that they will consume with us and spend on site rather than going off site. I think the last point is whilst we're pleased with return to office, return to office for us is measured in value. Actual footfall in office occupancy is still low. What we're benefiting from is clearly pricing.

We're benefiting from pricing. We're benefiting from events. We're benefiting from people dwelling on site. So the spend per capita are up, but the actual presence levels, office occupancy levels are still below where they were previously. All of that said, that could mean that we see a better volume performance for a while. I think at this point we need to remain conservative because any one of

those things could revert, right? So I think we need to see some more quarters of performance before we have greater confidence.

**Vicki Stern - Barclays**

Very clear. Thanks very much.

**Jaafar Mestari - BNP Paribas**

Hi, good morning. I've got three, if that's all right. So just firstly on Brazil, could you please remind us what your position was before you agreed to exit? My recollection was you're top three with Sodexo and Sapporo, and you're all fairly close - probably close to $1 billion before the currency took a hit, probably something like $500 million now. Just curious what the impetus was to put it on the review, not one we would have necessarily seen as a tail country, as you mentioned.

Then just in terms of your signing, so it's $3.4 billion on a last 12-month basis. If I try to reconcile that with the comments you've previously made on six months sterling numbers, there may be some rounding there, but it seems like you've signed $1.8 billion just in the last six months, and that's the highest you've ever signed. Just curious how we should look at this number. Is it fair to say exactly that, new historical highs? Or inflation is 4% or 5%. It should be up more than that. Has the number plateaued in a way before pricing?

Just lastly on the guidance, just wanted to clarify, you're guiding to 15% total EBIT gross now, but within that M&A you're now saying immaterial. So just checking that includes everything you've announced so far. There's not going to be another housekeeping revision there for CH&CO, which has now closed. Previously you were saying negative $100 million. So it's a rounding error, but my question I guess is, is the EBIT gross guidance up X, those M&A contributions, and by how much underlying, please?

**Dominic Blakemore**

Thank you, Jaafar. Let me tackle the first two. First of all, re-Brazil, re-anything that we're doing on the tail of countries. Let me just remind the previous answer. What we're absolutely focused on is what are the right markets for us to play in where we see the core sector opportunities and the greatest potential for us to sustain the growth rates that we're now seeing outside of North America and in North America, which contributes to the 4% to 5% of net new.

Why does that make Brazil unattractive for us in this phase? I think if you just take a step back, we've had to look at all of the sectors and sub-sectors in our business to say, where do we have a right to play and where does our operating model best deliver for the clients and for the shareholder?

If you look at Brazil, there isn't an opportunity within public sector trading, so that really does mean that the only real opportunity in healthcare and education is within the private sector. That remains very nascent and very small. So we don't see big opportunities in those sectors and we think that's going to remain the case. If we look at B&I, the vast majority of B&I in Brazil is blue-collar manufacturing. It's highly commoditised and very cost-conscious.

So, again, it's a real challenge to be able to differentiate ourselves in that marketplace where, frankly put, the experience of the colleagues is less important than the cost. Increasingly, everything we're doing is about the experience that can be given to our clients, consumers, whomever they may be, B&I colleagues or whomever. So we've concluded after many years of trying that actually it's better for us to focus our resources and our management time elsewhere where we see greater opportunity.

We've had great confidence in what we're now achieving for two and a half years. We've got line of sight of another six months to 12 months of success outside of North America in the run rates that we're enjoying to really double down there. The confidence to replicate, as you've heard us say today, the US model outside of the US. So that's what informed the decision.

More broadly on the portfolio review, that's about 12 countries we've exited since we started the program. It's probably going to round out at around 15 by the end, so there's a few more which are much less material yet to come. We hope to have that concluded by the end of this financial year, calendar year at the latest. From that point onwards, our acquisitions will be accretive to EBIT and growth as we go forward.

So we feel it's housekeeping. It's been important. Specifically, your question, look, I think the three of us that operate in that market were all broadly the same size. We sold the business to an independent party that operates a multi-service business and is listed on the Brazilian Stock Exchange. We think that's very positive for our clients and for our colleagues. It's a very, very good partner. We're pleased with that process. Hopefully, that answers your question fully.

In terms of our own new business, $3.4 billion, as you rightly say, we're super pleased. Over 12 months, I think it's 18% up on the number that we reported 12 months ago. You're absolutely right. An element of that is going to be a grossing up for pricing. An element of that is just that we are winning more in line with what we need to do because of the law of big numbers.

We try - I know we introduced the 4% to 5%. I know we've introduced net new. We're trying not to get too hung up on it between quarters and halves and look at it more on an annual basis, because there will be puts and takes as we go. It only takes winning a couple of big contracts in one quarter. You just win one major sports and leisure and you've added $100 million in a quarter. You might not replicate that in another quarter. So we're really looking at those sort of LTM trends. We think the LTM trends are materially ahead in both volume and value as we look at it.

**Petros Parras**

Good morning, Jaafar.

**Jaafar Mestari - BNP Paribas**

Good morning. Thank you.

**Petros Parras**

Maybe a couple of questions on inflation and then on your guidance. So on inflation, recall we exited last year around 7%. Q1 and the trading update were around 6% blended for the first half. We have witnessed a 5% blend inflation, which is in line with our pricing. They're running at a similar rate. In these figures, it's good to note that Europe continues to have elevated blended inflation versus the Group average.

We do see across the world easing on food inflation, but remember what we discussed before, we do see labour inflation to be steeply. For the second half, remember we said we're not going to make a forecast on how this will evolve. They're running at similar rates. Is it probable it's going to go down? Yes. To what extent, we don't know. We'll monitor how this evolves and provide another update in Q3.

On your guidance, maybe two points. My first point is the operating profit of 15% upgrade is entirely driven by underlying trading. The net M&A impact this year is immaterial, as you already said. In this guidance, we have factored in all the [known disposals] and acquisitions we have disclosed.

**Jaafar Mestari - BNP Paribas**

Thank you very much. Thanks.

**Ivar Billfalk-Kelly - UBS**

Good morning, everyone. Thank you for the presentation and the Q&A session. I want to touch on new business wins from first-time outsourcing. I believe your large US peer indicated 40% to 45% of new business wins with first-time outsourcing. So I'm just curious to see if you're growing in line with the market or outperforming, and how you expect it to progress over the coming quarters and years, frankly.

Then secondly, on your call, you touched on inflation, but you also mentioned in the release that you had labour shortages across some regions. So I'm curious if there's any colour you can give us around the impact that's happening from an operational perspective and, frankly, from a financial perspective.

Finally, you're guiding to CapEx of 3.5% for the full year. Given it was only 3.3% in the first half, I just want to see what the drivers are for the increase that you're expecting in the second half. Thank you.

**Dominic Blakemore**

Thank you, Ivar. Yes, look, in terms of the new business win rate from first-time outsourcing, we're in that 40% to 45% range. We've been around that for quite some time. So, yes, absolutely, we are in line with the market. I think it's a good thing because if you look at the sources of our growth, it's not about swapping contracts between the big global players. It's about taking share. In fact, in our case, it's about taking share from them, taking share from the smaller regional players, and also converting a good chunk of first-time outsourcing.

We remain super focused on the opportunity. In fact, we're getting more focused on it with discrete sales teams, which are uniquely focused on first-time outsourcing. Particularly in health care and education, where we see the biggest opportunities. We believe it will continue to be a significant contributor to growth as we go forward. We know that it's the part of the market where we can add the greatest value to our clients. Not just in terms of cost savings, but also in terms of quality of offer.

Again, back to the portfolio, what we're all about here is having less market so we can focus even more and with support from our central teams on that first-time outsourcing opportunity. Last comment is just to say we are now bigger than both of our international peers in absolute terms, in aggregate. Therefore, the ratios may be the same, but we're converting a lot more absolute dollars of first-time outsourcing globally than anyone else in the industry.

In terms of inflation, I think Petros has answered that fully. Labor inflation remains sticky, as I think the world is aware. We're continuing to manage that. I think you'll see it's in both the level of efficiencies we have to generate as well as the level of pricing that we need to take.

Labor shortages have been a challenge for everyone, I think, post-reopening of the pandemic. What's really pleasing for us is that we're now seeing, again, on an LTM basis, our labour turnover rate in every single region falling month over month for the last quarter. We're now at labour turnover rates that are below our pre-pandemic levels. So we really think we've consumed that period. Greater

consistency in our workforce means a better service and better outcomes for our clients, which is very exciting.

In terms of all of our major markets where we're sourcing labour, we're back to the number of applicants per role that we enjoyed pre-pandemic. What we're also seeing is, through the use of AI, a better ability to filter and employ more quickly than we've ever been able to do at a lower cost. So I think there's some great advantages there. We believe here, as everywhere in our business model, capability and scale can help us get better outcomes that can make us relatively more competitive than others.

**Petros Parras**

On CapEx, maybe a couple of thoughts here. I think you recall we talked about some timing differences last year in the CapEx expenditure. What you're seeing in the first half is a very healthy step up in CapEx. We're very pleased with that. We referenced the new signings on the last six months, so we have a lot of new contracts that we have signed. So we do expect to continue to invest in CapEx, being the range of 3.5% for the full year. Also, in this investment, you have to consider the investments in technology systems process as we improve our offer with the clients.

**Ivar Billfalk-Kelly - UBS**

Perfect. Thank you very much.

**[Neil Carrington] - Citi**

Good morning. Could I ask a couple of questions on the M&A, please? Firstly, is there anything you can share in terms of the integration of the 2019 Fazer acquisition and its impact on Europe? The reason for asking is to gauge the potential upside from the Hofmann’s initiation calculations beyond the points you referenced in your remarks earlier.

Secondly, on the 11% average sales growth CAGR in the group of acquired businesses that you referenced, can you disaggregate the drivers a bit, i.e., is the growth primarily driven by rolling out the brand's new sites or improving volumes and price? Thank you.

**Dominic Blakemore**

Thank you, Neil. First of all, on Fazer, we're really pleased with the Fazer acquisition. It's been very successful for us. The timing wasn't fantastic. We closed Fazer just a couple of weeks before the first lockdowns during the pandemic. Despite that, we realised all of the synergies that we'd anticipated in our acquisition case. Importantly, the key driver of that acquisition was to acquire what was the best food business in those countries.

It was highly regarded for the quality of its offer. In doing that, we have raised the bar across our wider business in those four markets. The net result is we've enjoyed the benefit of the synergies in our margin for the Nordic region. We've seen an acceleration in growth. Actually, the Nordics has been one of our highest growing subregions in continental Europe since the acquisition.

So I think it's a real test case of what M&A can do for us in Europe. We recently presented that to the Board, and we've hit all of our hurdles on that despite the pandemic conditions. So we are very pleased. In terms of the 11% CAGR on M&A, I'm not sure we've got the data to hand to be able to disaggregate that. That would be an organic growth CAGR, so it wouldn't have benefited from any further acquisitions within those subsectors.

Recall for many of those years, pricing would have been a relatively low contributor to it. So I think it really is about the fact that those brands have continued to take market share within their sectors and subsectors. Importantly, we've been able to cross sell them into our existing client base where we consider that to be appropriate. So we think it is a real recipe for success as we go forward. Again, what gives us confidence in the approach that we're adopting more widely. Again I go back to - this is all about putting in place the conditions for us to be able to sustain consistently the growth rates in that 4% to 5% net new range.

**Neil Carrington - Citi**

Thank you, Dominic.

**André Juillard - Deutsche Bank**

Good morning, gentlemen. Thank you for taking my question. Most of them were already answered, but I wanted to come back on the targeted leverage. One time, or around one time, the debt on EBITDA seems relatively conservative in a certain way. Would you be able to think about improving that midterm or not?

Second question about retention. I know that you already talked about it, but what is your midterm target, and what are the specific decisions you've put in place to secure that level? What are the main risk opportunities on that side? Thank you.

**Dominic Blakemore**

Yes, thank you, André. Let's just take retention first. I think the first point is anything really around that 96% to 97% we believe is best in class and high performing. With the 8% to 8.5% gross new gives us the opportunity to be in the 4% to 5%. I think really our focus is on sustaining these ratios despite the business getting considerably bigger. Remember, we're 40% bigger now than we were pre-pandemic. We're sustaining the same levels of new and retention despite that additional scale.

That said, this business is about continuous improvement. We are disappointed with the retention rate in the second half of last year and the first half of this. Despite that, we're enjoying 99% retention in the UK, 98% retention in Australia, record retention in a number of our European countries. So we do know the spots that this happened in, and individual large accounts can contribute to that.

What are we doing? We've talked forever about our [SAC] processes. We continue to relentlessly train those out. We're focusing more on the tail of accounts that aren't covered by our strategic alliance Group SAC to incentivise our operators for their retention and to put greater scrutiny and focus of our management teams on those accounts.

What we're also very focused on is the absolute numbers. I've kind of said sustaining the ratio is important, but actually 3% or 1% of a business that now is 40% bigger than it was pre-pandemic is a big number. Therefore, we're setting ourselves absolute dollar targets rather than ratios internally so we can get a better outcome. What does all of that mean? We would like to think we can continue to improve it. It will be marginal gains from here and sustaining that 4% to 5% really is the name of the game for us.

**Petros Parras**

I think in the capital allocation, you have seen our free cash flow. We're pleased with the free cash flow we generate. I'm going to say that the range of 1% to 1.5%, we're very happily placed in this.

Just keep in mind, [inaudible] on the EBITDA for us is about $1.5 billion. I think the level of cash flow we generate gives us the opportunity to be within this range and execute all of our organic CapEx investments and M&A when they become available.

**André Juillard - Deutsche Bank**

Okay, thank you.

**Neil Tyler - Redburn Atlantic**

Thank you, good morning. A couple from me, please. Coming back to the topic of like for like volume growth. You mentioned the positive contribution from areas like vending and new technologies. I wonder if you're able to give us any indication of what that might have contributed.

Then linked to that and aligning with your comments on the relative value proposition, obviously, food inflation is coming down - you mentioned labour inflation is sticky, but potentially, therefore, the relative value proposition may be narrowing. How should we think about that, both in the short term, potentially, perhaps as a risk, but also how the relative value proposition might be fuelling new business wins and how that gap has been used by yourselves in terms of attracting new clients? Thank you.

**Dominic Blakemore**

Thank you, Neil. First of all, I don't think the value gap is narrowing in any way. I think as long as we're in a period of heightened inflation, which we remain in, then we have the opportunity to continue to enlarge or accelerate that gap. Remember, it hasn't just been in food and labour. It's been in rent and rates and utility costs, which the high street bears that we don't.

All of that combination has meant that we should be relatively cheaper. I think the gap is at a - it's considerably bigger than it has ever been. So that does - first of all, I think that says that we should continue to expect it to be a benefit and a perceived benefit to the consumer. Secondly, I think you're absolutely right. It increases the cost efficiency that we can introduce.

Remember, when we're competing against business that's already outsourced, everyone else should have the benefit of the value gap. Albeit our scale should mean that that should be proportionately larger. The real opportunity is in first-time outsourcing, of course, where our structure should allow us to be ever more efficient. Yes, that's right. It should be playing into our ability to continue to win at these heightened levels.

In terms of like for like volume, unfortunately we don't quite have the data at that level of specificity to be able to call it out. What we do know is that our vending business continues to grow faster than our other subsectors in B&I. Within that, there continues to be the rollout of micro-markets across our estate.

There is undoubtedly higher per capita spend because of the breadth of the micro-market offer, because of the ease and facility of using it, and because of our ability where it pays back to roll it out into other corners of our client's estate. It is very exciting for us. I think as you heard us say earlier, there are a number of factors which are all driving the positive volume.

We'd like to think that some of those are as a result of the strategic initiatives and steps that we've taken. Perhaps some of them are still tailwinds as we see the return to office. I think we'll see this land in the next few quarters and halves as we go forward.

**Neil Tyler - Redburn Atlantic**

Okay, that's very helpful. I wonder if I could ask a follow-up on the European expansion. In some of those industry segments in Europe, traditionally, I think the perception at least has been that the outsourcing - or the ceiling to outsource penetration has been lower in areas like healthcare, education. Can you help us understand whether that's the case, whether you perceive that as the case, and how you're thinking about the outsource opportunity in those segments in Europe relative to, say, North America?

**Dominic Blakemore**

Yes, look, we've got a 7% market share in Europe. It's still a fraction of the market, and we are the market leader. I think the truth is we simply haven't done a good enough job for many years. It was very hard to unlock the potential that we're now enjoying. It took a few failed attempts in various areas, but we now think that we've got absolutely momentum. Momentum is absolutely critical in this business. We think our core processes are working really, really, well.

We see the gross market opportunity, and it's huge. We see that our conversion rates are still suboptimal. So those are all the reasons that give us confidence that we can sustain this. When you ask the question about what are the sectors we're targeting, we're still a largely B&I business in an underpenetrated B&I sector. We see huge opportunity in B&I, and that's absolutely where our focus is.

There's then opportunity within parts of healthcare and education, and we're learning to unlock that by focus on private, by focus on solutions like Hofmann's that allows us to deliver in, by focusing on retail and the café offer within the healthcare estate. Which then allows us to penetrate into the patient feeding part of that once we've proven our credentials through other subsector offers.

So I think we're just finding other ways to look at it and other ways to unlock. I'll give you another example. We've never really tackled sports and leisure outside of the US the UK. It's almost a completely new sector of opportunity for us. We're now utilising our capability as a [levy] operator with some of our event capability in the local market to bundle an offer for our clients, which we think is really exciting. We're providing the support from the existing levy team in the UK and the US.

As a result, we've recently won the Johan Cruyff Arena in Amsterdam, home to Ajax. We've won the Melbourne Olympic Park, the home of the Melbourne Tennis Open, and we see a huge opportunity for us to establish ourselves in a very fragmented market as the true market leader. So we think actually the more we've got into the growth culture, the growth mindset, and rolled out those processes, the more opportunity we see.

**Neil Tyler - Redburn Atlantic**

Thank you. That's very helpful.

**Operator**

Ladies and gentlemen, as we do not appear to have any further audio questions, I'd like to hand the call back over to Mr Blakemore for any additional or closing remarks. Thank you.

**Dominic Blakemore**

Thank you very much, and thanks all for your questions this morning. I just may give you a few final thoughts. As you've heard this morning, we've had a really strong first half, and we've raised our full

year guidance based on the strength of our underlying trading. We feel really positive about sustaining the broad-based growth acceleration that you've seen across all of our regions.

It's giving us confidence to increase investment, in particular through M&A outside of the US. That will strengthen our subsector model replicating the US success and increasing our conviction in sustaining medium-term, mid- to high-single-digit organic growth, margin expansion, and compounding shareholder returns. So thank you all very much, and we'll speak again for quarter 3 in July.

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