Compass 2015 Full Year Results
24 November 2015

Speaker key

RC	Richard Cousins
DB	Dominic Blakemore
GC	Jarrod Castle
JA	James
PA	Patrick
TB	Tim Barratt
DP	David Phillips
SL	Simon Larkin
NI	Nick Edelman
UM	Unidentified male speakers
JH	Jeffrey Harwood
IA	Ian Anderson
OP	Operator

RC Morning, ladies and gentlemen, and thank you for joining us. Can I begin by introducing Johnny Thomson, who will take over as our group CFO only next week. Today we have the usual agenda and then there'll be plenty of time for questions and answers at the end of the session.

Before Dominic takes you through the financial detail I'd like to begin by making a few comments on the business highlights. I'm pleased to report that Compass has delivered another strong set of results. Organic revenue growth at 5.8% has accelerated nicely. We've worked hard in this area and the momentum for the new year is encouraging. Excluding restructuring costs we delivered a further ten basis points of margin expansion as we continue to drive efficiencies throughout the business.

Importantly earnings per share were up by 11% and we're proposing to increase the dividend by roughly the same amount. Finally, we returned £328 million to shareholders in the year via share buy-backs. On that positive note, I'd like to hand over to Dominic.

DB Good morning and thank you for joining us. First let's take a look at revenue. Organic growth for the year was 5.8%. A 1% negative impact from currency translation gives an overall reported revenue increase of 4.6%. We've again delivered another strong performance in North America with growth of 7.9%. This has been driven by good levels of new business wins, exceptional retention rates and some like-for-like volume improvements across the business.

In Europe and Japan the top-line momentum seen in the first half of the year continued, delivering 1.9% organic revenue growth for the full year and growth of nearly 3% in the second half. This performance was driven by positive net new business, reflecting the investments we've made over the last couple of years in our sales and retention teams.

Like-for-like volumes were broadly flat for the year. Despite weakness in our offshore and remote sector and declines in the like-for-like volumes in some of the emerging countries growth in our emerging markets was still strong at around 11%. This was offset by the expected decline in Australia so as a whole the fast-growing emerging region therefore delivered organic growth of 6.9%.

Looking forward to 2016 we expect an acceleration in the Australian revenue decline as a number of construction projects come to an end and clients reduce costs further. We expect the emerging markets to continue to grow in line with the second half of 2015, resulting in overall fast-growing emerging growth of around 3%.

Operating profit of 1,322 million before the emerging markets and offshore remote restructuring reflects excellent organic growth of £81 million or 6.5% delivered across all of our regions. In July we announced the restructuring plan, to be delivered over 2015 and 16. In 15 we charged £26 million to underlying operating profits and expect a further 20 to £25 million to be charged in 2016.

We're on track to deliver savings together with ongoing margin improvements in the rest of the group that are expected to offset the impact of lower volumes and pricing pressures in our fast-growing and emerging region in 2016. After these restructuring costs operating profit grew by £51 million or 4% to 1,296 million.

The overall impact of currency in the year is slightly negative at £6 million. Positive impact of £44 from the strengthening of the US dollar was offset by 18 million from the weakening in the euro and 32 million from other currencies, principally in the emerging markets. Though these currencies are moving on a daily basis, if the current spot rates were to continue through 2016 we would expect a further negative currency impact of around £30 on the 2015 profits.

Now looking at margin, in North America we continue to generate efficiencies which have in part supported the superior levels of top-line growth and offset the impact of lower like-for-like volumes in the offshore and remote sector. As a result of this the margin has remained flat at 8.1%.

The continued focus on cost reduction and efficiencies in Europe and Japan has supported the investment in sales and retention teams as well as delivering margin progression of ten basis points to 7.3%. The fast-growing emerging region, despite the pressure on the offshore and remote business and the sharp declines in like-for-like volumes seen in some of our emerging markets, has maintained its margin at 7.2%. Overall before restructuring we've moved the margin forward by a further ten basis points to 7.3%. After restructuring the margin has remained flat at 7.2.

Let's look at the rest of the income statement. Focusing on the underlying columns, the net finance cost has increased by £18 million to 104 million. This reflects the roll from the additional debt required to finance the £1 billion return of cash to shareholders in the summer of 2014. For 2016 we expect the cost to increase to around £110 million, which equates to an effective interest of around 3.5% on gross debt.

The reduction in the underlying tax rate to 24.5% largely reflects the fall in the UK corporate tax rate and we expect the P&L rate to be around this level next year. So overall we've delivered an underlying basic earnings per share of 53.7p.

If we now look at the progression in underlying earnings in a constant currency basis you can see the 7% increase in operating profit before restructuring costs converts through to an 11% increase in constant currency earnings per share. This reflects the reduction in the tax rate and three percentage points of benefit from the return of cash, which more than offsets the restructuring costs that we incurred in the year.

Looking now at cashflow, we've delivered another year of strong cashflow generation. Capital expenditure was 2.8% of revenues, slightly above historic rates as we invest in the return of Europe to growth. We therefore believe that this rate will continue going forward. As you would expect, depreciation has increased broadly in line with capex so the net cashflow conversation rate after capex and depreciation has remained flat at around 90%.

Working capital in the year showed a slight outflow as changes in terms and the growth of the emerging markets offset the natural inflow from growth especially in North America. We expect this to average out at a small outflow over time but as you can see, over the past five years this may be lumpen [?].

Overall this model will deliver an operating cash conversion rate of around 90%. As we look towards 2016 there are two items which I'd like to bring to your attention. The first concerns capex. Next year we'll be co-investing in a camp in our Cameat [?] region, the start of a long-term contract extension with an existing client. We expect the 2016 capex will therefore be around 3% of revenues.

The second item has to do with working capital. In 2016 we'll have a negative impact of around £70 million due to the timing of our payroll work [?] in September in both the US and the UK. This will reverse in 2018. Please keep these points in mind when modelling our cashflow in 2016.

Now, taking a look at some of the choices we make with our cash, we continue to expect an annual outflow of £50 million as we fund our pension liabilities. This is an excellent use of our cash as we extinguish our remaining defined benefit liabilities. We're currently 96% funded on the UK scheme and expect to be fully funded within the next couple of years.

On an accounting basis the group's net pension deficit is not only £9 million, which compares to nearly £400 five years ago. The biggest impact on the free cashflow conversation rate however is the rise of interest costs. This relates to the higher leverage as we retire equity to debt through returns to shareholders.

The underlying cash tax rate was 22%, which is slightly lower than the short to medium-term expected level of the mid 20s so we continue to make good progress in generating and converting free cashflow and we remain positive about the future.

Looking now at the balance sheet, opening net debt was £2.4 billion. We spent 89 million M&A and 457 million on dividends. The purchase of own shares for 328 million completed the 500 million buy-back programme which we announced in November of 2013. So closing net debt was 2.6 billion, equivalent to a net debt to EBITDA ratio a little over 1.5 times and this remains our target leverage ratio.

So to conclude, as you can see from the slide, we've delivered a strong financial performance across the board. With that I'll hand back to Richard.

RC Thanks, Dominic. Over the next 20 minutes or so I'll cover our regional performances in the year and then update you on our strategy. 2015 was a really good year for Compass. Our business in North America is in great shape and the momentum in Europe is quite exciting. Indeed Europe returning to growth is perhaps the principal feature of these results.

We are facing some challenges in our FGNE region but, as is our style, we're acting swiftly to attack the cost base and right-size the business to reflect the new market conditions.

We are being rewarded for our increased focus on organic growth. New business was 8.8%, driven by strong performance in all regions. We had 5.5% of lost business; that's an improvement of about a percentage point against 2014 and like-for-like revenue growth of 2.5%, reflecting sensible price increases and a modest improvement in volumes in North America and Europe. As a result, organic revenue growth was an exciting 5.8%.

We remain obsessed with margins. Excluding restructuring costs the group margins expanded by ten basis points in 2015. The main headwinds were some food and increasingly labour inflation. There's also some reinvestment to support growth including mobilisation cost and additional sales and retention resources.

In parallel we're relentlessly focused on offsetting these challenges through cost reductions and efficiencies, improving overhead leverage and sensible price increases. The underlying margin improvement funded the restructuring in FGNE and as a result overall margins for the year were flat.

The group's core growth engine is North America, where we've had another excellent year. Organic revenue growth was 7.9%, driven by strong new business, high retention and improving like-for-like volumes across most sectors. Margins were flat for the full year, reflecting the mobilisation costs that come with strong rates of new business wins and the impact of significantly lower like-for-like volumes in our oil and gas business.

Whilst 7.9% is unlikely to be a sustainable growth rate I remain excited by the prospects for the North American business. Two-thirds of the market still resides with self-operators or small regional players and through our sectorised and increasingly sub-sectorised approach we're able to sharpen our offer and yet keep our costs low.

This slide shows three excellent case studies of how we're maintaining strong momentum in the US through sub-sectorisation. Our well-established vending business Canteen is enjoying exciting new growth by specialising in office coffee, where our branch network gives us a cost advantage and the Avenue C concept, which targets sites that are sub-scale for a full restaurant.

In sports and leisure we're using our expertise in catering sports events to target convention centres and in healthcare we're enjoying strong growth with Flick Lifestyle, a concept aimed at retirement communities that want high-quality culinary and hospitality programmes that are more akin to a BNI proposition than traditional healthcare.

We're beginning to make real progress in Europe. Revenue grew by nearly 2% and this compares with a contraction of 3% in 2013 and 1.5% in 2014. So a delta of five percentage points over a three-year period is significant. Importantly, in the second half of 2015 we grew by 3% as we reaped the rewards of our focus on and investment in sales and retention.

For example our business in southern Europe has gone from two years of double-digit declines to low single-digit growth as a result of the focus and investment. Price increases in the region have been reasonable and encouragingly volumes are beginning to stabilise. Margins improved by ten basis points and we drove significant efficiencies in purchasing and labour, which were partly offset by mobilisation costs and reinvestment to support the top line.

We had a difficult period in Europe. The global financial and Eurozone crises, perhaps Compass' own underinvestment in sales and retention and our own restructuring programme have combined to create six years of revenue contraction. This is now behind us.

A combination of economic stabilisation and more importantly perhaps the application of best practice sales and retention processes to our European business gives us some real confidence in the future. An H2 growth rate of 3% bodes well for 2016 and beyond.

Our Fast Growing and Emerging region has had a mixed year. Progress in India, China, the Middle East and the Spanish-speaking Latin American countries helped to deliver an 11% growth rate in the emerging markets. However the commodity cycle has impacted our global DOR business, particularly in Australia and this trend is likely to deteriorate further in 2016.

We have reacted quickly to reduce our labour costs, exit onerous contracts and manage the difficult volumes and inflation in places like Turkey and Brazil. The restructuring programme is on track.

What about the future? Well, our strategy is clear and unchanged. Food remains our core competence. We take a cautious and incremental approach to support services and we do bolt-on M&A only if they're attractive targets. We concentrate on delivering the highest quality and performance whilst relentlessly driving to be the lowest-cost, most efficient provider.

The contract food service market is estimated to be more than £200 billion and there is a large structural opportunity for growth given that over 80% is still operated by either in-house providers or small regional players.

Over the last ten years we have enjoyed a full array of strong and weak economic trends, commodity cycles and currency crises. However – and I think this is a really important point – the balance of this business across geographies, sectors and clients has helped to deliver an average growth rate of nearly 5%.

With the excellence of our North American business and the strength of our European recovery I'm optimistic that we can more than mitigate some short-term headwinds and maintain this average growth rate over the coming years. I'm excited about the future.

In parallel we will never get bored of driving efficiencies. Now, this chart is as old as the hills but it's also right. Being the lowest-cost operator makes us more competitive, which drives more growth, which provides the scale in purchasing and back office to be more efficient, invest in sub-sectors and so on and so on.

Our enhanced confidence in our simple business model is liberating us to increase our focus on innovation. Indeed a few weeks ago we bought Compass' senior 400 managers together for our biannual leadership conference. The theme was inspiring innovation.

Innovation for us is not just the sexy stuff of digital and more sophisticated retail concepts. It cuts across all areas of our business, all areas of map. Internally-developed innovation is mainly different food concepts and processes. Consumers increasingly want more variety on the menu, whether it be more ethnic foods, healthy options or food that is organic and locally-sourced.

We develop processes to lower food and labour [?] cost or to improve the experience in our restaurants by reducing queues or increasing the speed of service. We also use innovation that is developed externally. These are tools and technologies that help us to either increase sales or lower costs. A few examples are cashless and cashierless technologies that increase the speed of service and lower labour costs, or supply chain and waste management tools that help us to manage our food costs. We're excited by this change of emphasis but fully aware that we are only just beginning the journey. Watch this space.

Our business model remains clear and unchanged. Top of our agenda is organic growth and we continue to put more focus and resources behind both maps one and two, driving new business and retention and consumer sales. Our obsession with cost [unclear] maps three, four and five, food, labour and overheads, is never-ending. There is still considerable opportunity to improve margins.

We invest as required to support growth and create value for our shareholders by delivering a balanced package of EPS growth, a strong and progressive dividend and return of surplus capital where that's appropriate either via share buy-backs or other means. It's a proven and sustainable model.

As we announced a couple of months ago, next week we will make some modest changes to our management and geographical structures. Gary Green will be responsible, as now, for North America. Dominic will be in charge of Europe, to include Turkey but not Japan. And within the new rest of the world super-region Alfredo Ruiz Plaza moves from Spain where he's responsible for Iberia and Italy to replace Johnny as head of Latin America, Andy Furlong continues to run our business in Africa and the Middle East and Philip op de Beek who is already based in Singapore and is responsible for much of Asia Pacific will have Japan added to his portfolio. Finally Johnny relocates from Sao Paulo to become our group finance director.

At this point I'd like to thank Andy Martin for his amazing contribution to the group. All wish him well. I'd also like to thank Dominic for his achievements as CFO and congratulate him on his appointment as COO for our European region. I wish both Johnny and Dominic all the success…

And so to summarise, it's been another strong year. Our business in North America is in great shape. Europe has returned to growth and the restructuring in FGNE is on track. We continue to return cash to shareholders and remain focused on strong growth with discipline and we remain positive about the significant structural growth opportunities in the business.

Thank you for your time and attention. We'll now move on to questions and answers, usual format, one question at a time. Obviously you'll ignore me and ask as many as you can but we'll pretend. Okay, who's going to start?

GC Thanks. Good morning, it's Gerard Castle from UBS. Just my first question; just on France, how much of the business is leisure-reacted? France is 5% of the group.

RC Yes, I would guess it's less than €50 million.

GC Just one question?

RC Go on then.

GC Okay, sorry. Then just in the UK, just the World Cup impact in September and October, please. Thanks.

RC It was a small positive. I don't know whether you can quantify that, Dominic.

DB It was probably about 0.5% on our European growth in the fourth quarter.

RC Jamie?

JA Thanks, good morning. James [inaudible] from [inaudible]. Just a question on capex, which has gone up again last year as a percentage of sales. Could you just give us a bit more detail as to where the capex is going and whether you're adopting a slightly more capital-intensive approach? You mentioned that camp in Cameat and also will depreciation, which I think is about a third less, catch capex up over time and present a bit of a margin headwind? Thank you.

RC Yes, I think it's an important question. For those of you with a longer memory, you may recall that in the early years of the century Compass used to spend about 4% of revenue on capex. New management, miserable management came along and cut it too low to 1.7%, since when we've been easing it up to the 2.5 and now 2.85 level, which we believe is about right. So the 3% is slightly unusual because of this camp.

Going forward in 2017 and beyond our working assumption is that 2.75 seems to be about right. We're obviously keeping our M&A spend under firm control and we think we can get better-quality returns, lower-risk returns in capex than we can with the glamorous M&A.

DB If I could just add a couple of things to that, Jamie, firstly the camp opportunity in Cameat that we see will be margin-accretive to both Cameat and FGNE when the camp comes on stream in 2017 and it's one of the few great opportunities that remain in the oil and gas sector as we see it so, I think, a good use of capex.

Then secondly your point on whether depreciation will catch capex. Part of what we try to do with the use of capex is to extend our contract terms. That actually means the depreciation lines are extending rather than reducing so there's an offset within that. And I think in the chart we showed you we're pretty stable at 90% cash conversion after taking account of both depreciation and capex and that has been the profile for three years and pretty much over the five years as well.

So we think that the use of capex and the higher levels of capex are very attractive for us.

PA Hi, there, Patrick [unclear] from Barclays. Just one question on food price inflation; can you talk about food price inflation in the regions, what sort of tailwind is that and how much has that been offset by wage price inflation? Thanks.

RC Yes, it's interesting. I think total inflation is fairly steady. In the Western world food price inflation's probably slightly below average. We still have inflation but it's slightly below average, whilst I think labour costs would be in the rich world slightly above average at the moment.

But there are countries – Argentina, Brazil, Turkey – which are experiencing very serious food inflation, double-digit food inflation as well as quite high labour inflation so it does vary enormously across the world. I don't know whether you want to add a bit of colour to that, Dominic.

DB I think we continue to see, as Richard said, low, maybe 0.5% to 1% of food cost inflation in Europe, a couple of percent in North America and mid-single-digit in Europe and Japan. That's slightly better in the round than…

RC You said mid-single-digit in FGNE?

DB FGNE, sorry, FGNE. In the round that's probably slightly better than we've seen in recent years but obviously, as we've also said, the labour inflation is probably a little bit worse than we've seen also over the last few years.

TB Morning, Tim Barratt from the Mirror. This question about Europe; you made the comment that it's starting to get exciting in Europe and obviously that's just when Andy Martin is leaving. Do you anticipate any changes to the next level of management or the structure of how you run Europe? And can you talk a bit about where the margin might go as that business starts to grow again?

RC Yes, do you want to take that?

DB I guess the first thing to say is that I think there've really been two great phases of leadership under Andy firstly, addressing the cost challenges following the Eurozone crisis with very widespread and material restructuring across the whole region, and then secondly restoring Europe into growth and I don't think you should underestimate the shift from –3 to +3 over the course of the last three years; it's been very impressive.

I think the opportunities as we look forward are very much to build on that growth, firstly to institutionalise that growth across all of our markets. We've got a number of markets that are performing strongly, others that are still in the first blushes of getting back into growth so we need to institutionalise that growth and attempt to accelerate it a touch as well.

In terms of how we manage the region, we're structured with effectively seven reports to me beneath the roles so we do cluster a number of the smaller countries and I don't see any need to significantly change that in the short term. And for now I think the margin opportunity's been steady margin growth in the context of the top line getting back into growth so we still see lots of efficiencies in the P&L, particularly in map three and map four and the opportunity, I think, is to see how we can increasingly use scale across Europe to create a competitive advantage by using the European scale rather than necessarily the national scale. I think that will underpin the type of margin progression you've already seen.

DP Thank you, good morning, David Phillips from Redburn. You made the point quite clearly there that capex is much more favourable to M&A from a returns point of view. I might be reading too much into it but in the statement you have put M&A slightly, you've ranked M&A above pooling dividends and share buy-backs, whereas previous year it was the other way round. Is there anything to be read into that?

RC No, other than we've probably topped it up if that's the case. No, I think our commitment to dividends is very clear. We've increased it by 11% here, just under 11%, whatever the maths is. We are absolutely committed to a progressive dividend and any spare cash we'll give back through share buy-backs, as we continue to do. So if there was an apparent change in ranking we didn't mean it.

DP Thank you.

SL Good morning, it's Simon Larkin from Bank of America Merrill Lynch. A question on your slide with regard to innovation; could you talk a little more about this and help me understand, is it more of a retention tool, innovation, or actually can it in itself be a revenue driver and a proper centre in its own regard?

RC That's a great question. I was keen to stress in my presentation that it cuts across all areas of map so it depends on which dictionary you look at but when we were planning our [unclear] I looked at a number. We see innovation as having both [sic] revenue implications, retention implications and cost and HR and finance. What we're really signalling here is because, I guess, Compass has done quite well over the last few years we've looked at our strategy very carefully and the management and the board have concluded that if you're black-and-white about it, it is a choice between diversification in terms of geography, in terms of facilities management and aggressive acquisitions; that would be one course.

Or the other course would be to stick to our knitting, which we think is a much more attractive one, and put more passion and emphasis and resources behind growth and innovation. We think that is a model that will produce much better returns at lower risk.

So within that our goal, whilst sticking to our knitting, is to try and be more innovative in how we win, how we retain contracts, how we use digital – whilst I've said it's not just digital that is a very important part of it, particularly in higher education and I think we'll see that getting into BNI as well.

We're becoming increasingly interested in map two, how will we drive that, and we've had some real success in the US and I think that's going to be a key part of the European agenda over the next couple of years.

We also need to be more innovative as to how we schedule our labour, how we plan our menus and these are not new topics, we've been talking about them for years. What excites me about this business is I think we've made quite good progress but we're nowhere near as efficient as we need to be so innovation also means we need to use technology and other concepts to make us lower cost as well as improve our sales and retention.

So it's a state of mind really; we're in a great place but we're not going to get cocky and diversified, we're going to stick to our knitting but try and be more innovative.

NI Morning, it's Nick Everman [?] from Goldman Sachs. Can I just ask one question around FGNE and whether there's and risk there in terms of in particular the LatAm component to either growth or margin just because of volatility? When you see significant volatility or in volumes in terms of your contract structure and also your cost base have you got significant flexibility there to maintain broad guidance that you've given?

RC Yes, I think we have. I mentioned earlier that we're doing pretty well in the Spanish-speaking countries, which for us is Mexico, Colombia, Chile and Argentina. Argentina's had very high inflation for many, many years and yet we've made real progress over the last 18, 24 months so I think there's much more work to do in Mexico and also, to a degree, Colombia.

The key country for us in Latin America is Brazil where, as I'm sure you know, the economic environment is very, very tough. We are suffering very serious like-for-like volume declines in Brazil and yet we also have quite high inflation as well so that's tough. We've reacted strongly on cost reduction. We've reduced our headcount by about 15% – I think that's the right number – and we've reduced our overheads by about 20% in Brazil so I think we're doing all the right things but as you'll understand with regard to the euro crisis three or four years ago like-for-like volumes of –10% are pretty tough so it think Brazil is in for a difficult year or two.

NI Just in terms of pass-on of costs, if you see significant FX volatility there that changes some of your cost inputs like your food inputs are you able to pass that through relatively swiftly?

RC FX tends not to be a factor within our business because most of our supply chains are relatively local. FX really only affects us for translation.

UM Thank you. [Unclear], Jeffreys. Some of these fast food aggregator sites like Just Eat and certain ones in the US seem to be having a lot of success and a lot of growth. Do you expect to see any impact on your business as maybe people's lunch habits change and they order in?

RC I think what we've seen – I can only go back ten years but what we've seen throughout those years is some of those trends. Some of them are quite innovative, some of them are good for our business, some of them not. In the round I think it's fine. Our job is to be more innovative, to be faster on our feet, to provide higher and higher quality. Even in my finite period in this industry I've noticed that on average clients are much more interested in the quality of food than they were and that's good for us, that's good for our business model.

Much of our conference a month ago was just on pure food innovation, how we make our offering more exciting for our consumers so there will be those sub-plots. Some are good, some are not so good for us but no, I'm not losing any sleep.

JH Yes, Jeffrey Harwood from Stiefel. Just two questions; in Europe can you give a quick run-through by country? And secondly there seems to be less comment and emphasis today on the oil and remote business. Is that because there's not much change and trading as you expected?

RC I'll let Dominic talk about Europe in a moment and we won't cover all 22 countries, we'll just focus on the top four or five, I think. In terms of oil and gas hopefully we've been very up-front with you. It is tough, pretty correlated to the price of oil of course in terms of that impacting short-term production but also impacting medium to longer-term exploration and construction in all extractive industries.

So obviously it's not our job to forecast the price of oil but our working assumption is it's going to be tough for a couple more years and so we're working very hard to drive sales growth, interestingly. We still see opportunities. This is not a sector we're giving up on and in many ways it's been good for us, it's forced us to be more innovative, it's forced us to take out cost, it's forced us to go back to our clients and say, we obviously understand you're under a lot of pressure and you need to take cost out, that can be done by reducing scope, different ways of presenting the food, different labour schedules and so on. It's not just us taking a haircut, it's a more innovative approach.

JH Are you taking share then [?]?

RC I never want to be macho about us taking share but we are committed to growing our DOR business. We think we're the best at it and we're not giving up on it but it is tough, let's not hide from that. In terms of Europe, Dominic?

DB Sure. Starting first with the UK, which is our biggest market in Europe, the UK's been enjoying a healthy return to growth so a very exciting pipeline, good opportunities across really all of the sectors so yes, we're very excited about the UK. We're also seeing a little bit of positive volume in the BNI business as well so it's been a good year for the UK and good momentum going into 2016.

If we pick up southern Europe next, I think again we've seen good growth for the past two years in Spain, we've seen good growth opportunities in Portugal [unclear] and I think we're starting to turn the corner in Italy in terms of growth performance and all three markets beginning to deliver good margin progression so I think we feel more confident about the southern European countries than we have for a while.

Germany; some growth opportunities. We're still not quite where we want to be in terms of the top-line performance but strong again on profit and I think Japan would be a story of reasonable growth and good profit progression.

I think the markets which are probably slightly less positive right now would be the Nordics. We've seen the pressures of the oil and gas sector there in a couple of the markets and they're holding us back so obviously we've taken the necessary restructuring actions but those economies and our sector base is very much oil and gas-reliant, as you would expect.

And then of course France; I think we'd started to perform slightly better before the events of the past week so we'll have to see what impact that has on our BNI business in particular over the coming weeks and months but yes, there's still more work for us to do in France and we still see restructuring pressures as clients – as we've said before – are coming to the restructuring later than we've seen in other markets.

RC Okay, I think you can probably start a second cycle now. Cary [?].

UM Thanks. Could you help us understand in fast-growing and emerging the differential margins between Australia and EM, you said Australia down high single digits and that's about a third of the business by revenue; EM's still up. What's net of all that given Australia's much higher margin?

DB Sure, two factors here; there's what we see in 2015 and what we'll see in 2016. In 2015 we've managed to hold margins broadly flat in both Australia and the emerging markets and I think that's a combination of the major restructuring programmes that we've undertaken in Australia to contend with the pricing and volume pressures we've talked to you about, and then within the emerging markets we started to see, particularly in quarter four, the benefits of the restructuring actions we've taken, which have allowed us to hold margin flat.

I guess the Australian margin could be a couple of percentage points above the average and the EM margin would be 1% or 1.5% below that.

As we look into 2016 again it becomes a bit of a diverging story. On the one hand in EM we expect to make margin progress so we'll get the benefit of the restructuring and as we see the environment today we believe we've taken sufficient action to address the difficulties that we anticipate so we've got enough restructuring headroom to take the actions we need to and we should be able to deliver a little bit of margin progression in EM.

I think the difference for us as we look forward will be as we move out of the construction phase on a number of major projects in Australia and those switch into production. Those are more attractive margin contracts that will be coming to an end and that will present a drag on Australian margins and that drag could be anywhere between 100 and 200 basis points of Australian margin which obviously, on 5% of the business, can represent between five and 10bps of margin headwind for the group.

So within our guidance that we will maintain margins flat we're obviously seeing that off with anticipated margin progression in the other regions.

IA It's Ian Anderson at Jeffreys again. At what point in the year do we expect you to quantify the share buy-back and the size of that and why haven't you moved to two times net debt to EBITDA, as I think you could under the Moody regulations?

RC We announced in May that we would now present our buy-back looking backwards rather than forwards so we're not going to give you a budget – in inverted commas – for 2016. We told you what we did in 2015; is it a reasonable guide for what we might do in 2016? It could be, depends on M&A, depends on events and so on. In terms of our ratios, Dominic?

DB Sure. I think we said we were targeting 1.5 times. We've moved to 1.5 times from 0.7 times just over the last couple of years so I think we've already made significant progress into a higher leverage ratio. I think of course under the revised Moody guidance it is possible to retain the strong investment-grade credit rating at 2.5 times. I think we feel comfortable at 1.5 times today and that's where we intend to stay but we obviously keep these things under review.

Just on the buy-back budget, I'd always just clarify as well, we've bought back £45 million of shares in the 2015 year to date so over the last couple of months so we're tracking a run rate of about £75 a quarter.

DP Thanks, David Phillips again from [Unclear]. You talked about the US being so successful more from the medium-size contracts coming through and less so from the major contracts. Is there any change in that outlook and are there any big contracts on the horizon for 2016?

RC Interesting question. There are lots and lots of medium-plus-size contracts, however you define that, lots, in fact. I think, are pipeline in the US is as good as I've seen it so we would feel really quite positive about that country.

Mega-mega-contracts – and those of you will remember three or four years we signed Texas A&M University there and Ascension Healthcare – that type of multi-hundred-million-dollar contracts; we don't see many, no and actually with hindsight we're quite relaxed, we think those big contracts are hard work, they're inevitably slightly lower margin so we are enjoying a very balanced approach in the US which I think is more sustainable.

Jamie wants to ask his third. Is there a law against that? I suppose we'll allow it.

JA As we look into 2017 should we expect the 20, £25 million to fully reverse or do you think you might find another home to that? And with an underlying 10bps continuing should we see 20-plus bps of margin growth in 2017?

RC We would hope so. 2017 seems a long way away to give you a forecast. Who knows what state the planet will be in but if normal trends continue I think that's a fair working assumption. Any other questions from the floor? I need to see if there's anybody on the line. Is there anybody on the line?

OP Ladies and gentlemen, if you'd like to ask a question please press * 1 on your telephone keypad and wait for your name to be announced.

RC I really enjoy this bit because I can't tell a word they're saying. No?

OP Okay, no, we have no questions coming through on the telephone lines.

RC Ladies and gentlemen, thank you very much.

OP Ladies and gentlemen, thank you for joining today's conference. You may now replace your handsets.