Presentation

Richard Cousins

Good morning ladies and gentlemen, thank you for dialling in. With me this morning I have our Group Finance Director, Johnny Thomson. I'll start by giving you a brief overview of our first quarter trading and then say a few words on the outlook, before opening the call to questions.

Group organic revenue grew by 2.8% in line with our expectations. We continue to see strong levels of new business wins, good retention rates and modest increases in like-for-like revenues. We've been able to move the operating margin forward slightly, as we continue to drive efficiencies across the business. This was further helped by the absence of restructuring costs in our offshore remote business.

Let's look at the regions individually. North America delivered organic growth at 7%. We saw very good growth across most sectors with particularly strong performances in our core B&I, vending and higher education sub-sectors. And surprisingly trading in our oil and gas business continues to be tough. Organic revenues in Europe was flat. As expected the net new business trend seen in the last quarter of 2016 continued into Q1. Like-for-like revenues remain unchanged with some pricing offsetting weak volumes in the North Sea and in France. Finally in our rest of the world region, organic revenue declined 6.5% in the first quarter due to the expected weakness in our commodity related business and a challenging environment in Brazil.

Currency movements in the quarter had a positive translation impact on revenues of £924 million and on profit of 74 million. If current spot rates were to continue the rest of the year, foreign exchange translation would positively impact 2016 revenue by £2.3 billion and operating profit by 186 million.

In conclusion, Compass has had a solid start to the year and our revenue and margin expectations for the full year remain positive and unchanged. Growth in North America continues to be strong. Europe and rest of the world are performing as planned with growth weighted to the second half of the year. Looking to the longer term we remain excited about the significant structural market opportunity globally and the potential for further revenue growth, margin improvement and continued returns to shareholders. Thank you and now we'd be happy to take your questions. Greg, would you like to tell us what to do?

Q&A

Operator

Certainly. Ladies and gentlemen, we are now ready to take your questions. If you wish to ask a question, please press 01 on your telephone keypad. That's 01 on your telephone keypad to ask a question. Please stand by for the first question.

And our first question comes from the line of Kean Moden from Jefferies, please go ahead, your line is open.

Kean Moden

Morning gentlemen. Could you provide just a little more background on margin development in the first quarter? So specifically is the group EBIT margin still up slightly excluding the one-offs?

And then maybe if you can give some divisional colour on trends, that would be helpful as well. Thank you.

Johnny Thomson

Yes thanks. We're very positive actually about the progress we see in – on margin in the first quarter. I mean we don't disclose the numbers specifically of course, but as you know, and Richard said earlier, for the full year we're expecting the benefit of restructuring of around about 13 basis points plus some underlying progress in the business to somewhere between 15 and 20 basis points overall. And as I said, quarter one is holding up well in that respect.

First of all, you asked about the regions. I'd say that the restructuring benefits are coming through in the rest of the world business, which is encouraging. And of course, we're working hard as we always do on – in efficiencies around the MAP the programme in both Europe and in North America, so we're seeing some underlying progress there too.

So overall, of course, it's a tough environment, particularly on labour but we're very pleased with the progress so far.

Kian Moden

Great stuff, thank you.

Operator

Thank you very much. And moving on to the line of Jamie Rollo with Morgan Stanley. Please go ahead, your line is open.

Jamie Rollo

Yeah, thanks. Good morning. First of all, just on maintaining your full-year expectations, what gives you the confidence in the acceleration in the second half? Is that a pipeline or weaker comps?

Secondly, it's a slightly nitpicking, but North America clearly very strong still at 7 but a slight slow down. Is there anything in particular behind that?

And finally, are you able to give us just a couple of numbers behind rest of world for DOR and non-DOR, please? Thank you.

Richard Cousins

Jamie did you just use the word nitpicking? That's very unlike you.

Jamie Rollo

Trying to keep on your good side, Richard.

Richard Cousins

That would be a first. Full-year confidence; we've analysed this to death because clearly this quarter at 2.8% is slightly below par for us and we are very confident that the full year will see us within our range of 4 to 6% – at the bottom end – but within of 4 to 6%. And we would be very optimistic that in 2018 we would see an acceleration from that, just over 4 or whatever we're going to deliver this year. So, the confidence really is borne out by the pipeline.

I guess most significant would probably be the UK where the pipeline looks incredibly strong. I don't like using the 'b word' Brexit, but there is no doubt that in the period sort of April to September, the number of contracts we signed was remarkably low and what has happened since then is – has surprised me by the acceleration. Which gives us real confidence for the UK for the rest of this financial year. So we feel good about being just north of 4% this year.

The US, I think looks remarkably strong. Canada has seen a slow down, principally due to oil and gas. As I'm sure you know, the extraction costs, particularly in Alberta in the sands there, are high and therefore the slow down has been really quite sharp. Other than that, however, North America is in great shape, particularly the US. Our pipeline there is remarkably strong. If you look at – I mean we're not at – was it 8.1 we did last year in North America? We can't repeat that every year. Our ten-year average is 6.7% in North America. I would hope we would be a bit above that this year, consistent with Q1, so we feel bullish about that.

So long ago since your question now, Jamie, I can't even remember what it was. Something about rest of the world, what was that?

Jamie Rollo

It was just you often give us the offshore remotes –

Richard Cousins

Oh, offshore remotes –

Richard Cousins
Johnny's a bit of an expert in that.

Johnny Thomson
Rest of the world, Jamie's down 6.5%, as you saw in the statement. The split goes that offshore and remote for the quarter was negative 20% and the non-offshore remote part was a growth of 2%. Obviously the offshore and remote part as we know is – takes some time for the impact of commodities prices to wash through the business and as the quarters go on during the course of this year, we'll start to see those negatives reduce and we believe that during the course of 2018, we'll start to see that business turn back into positive territory.

Australia's obviously the biggest factor in that, as you know, and this quarter is when really we're taking the biggest hit from the construction into production. However, I was in Australia a few weeks ago and we're feeling positive about the way we're re-basing the business at the moment. The non-offshore and remote elements of the business; healthcare, education, B&I, are really starting to motor well. And so we're really confident that Australia, again in 2018, is going to turn into the positive territory and be a more balanced business for the future.

Jamie Rollo
Thank you very much.

Operator
Thank you very much and moving on to the line of Jeffrey Harwood with Stifel. Please go ahead, your line is open.

Jeffrey Harwood
Yes, good morning. Some of my questions have been answered but I wondered, within Europe, if you could touch upon the performance in France and Germany, the number two and three countries there please?

Richard Cousins
Yeah, steady as she goes. France; the volumes are a bit dull if I'm honest. I think the country obviously has taken a little bit of a hit with the terrible terrorism 12 months ago or less in some cases. So there's certainly been some like-for-like pressure there, but France is a good business, well run, the margins are above average. So it chugs along steadily but just a tad disappointing.

Germany, as I'm sure we've told you before, is very well run, good margins but low growth. However, I think that the business units that Dominic has created is – means that we've merged effectively Germany, Austria and Switzerland to create DACH, that's allowed us to take out yet more cost. We're able to re-invest that – some of that into sales, so we are adding to our sales team in that DACH sub-region. So I do think Germany and Austria and Switzerland will come through but probably only at the European average rate. That's where we would think we would be in a couple of year's time.

Jeffrey Harwood
Sure, thank you.

Operator
Thank you very much. And moving on to the line of Vicki Stern with Barclays. Please go ahead, your line is open.

Vicki Stern
Hi. Yeah, morning. Couple of questions. Firstly, just on rest of world; Brazil I think you call out, still very tough but just how are you seeing the shape of that over the rest of the year, in terms of volumes in particular?

And also just on cash returns, leverage etc. obviously quite a slow start to the year in terms of the share buy-backs, how should we think about your commitment to the 1.5 times leverage and how sort of close you'll get to that during what points of the year? Thanks.

Johnny Thomson
Yeah, on Brazil, as we've said before Brazil is tough, continues to be tough. Unemployment now has reached around 12% I think, we were talking about it yesterday, and therefore being heavy weight in the B&I sector in Brazil as we are, that obviously impacts our volumes. So volumes are still tough. As we go forward, of course, we would expect the volumes, comparatively speaking to

get a fraction better and I think, if we're being honest, we'd say that we could probably do a little better on MAP 1 retention too, so we're working very hard on that aspect as well.

On the cash returns, we have spent £12 million in quarter one on share buy-back programme. I just confirm that nothing's changed in terms of our use of cash and neither our targets leverage levels, which remain at around about 1.5 times. So, you know, at the moment we're cautious with the buy-back. Of course with all the volatility, particularly in FX, we don't want to get ahead of ourselves and we'll continue to review what our options are for the second half of the year and we'll get back to you on that.

Vicki Stern
Great, thanks very much.

Operator
Thank you very much. And moving on to the line of Wyn Ellis with Numis. Please go ahead, your line is open.

Wyn Ellis
Yeah, hi good morning. Actually most of my questions have been answered as well, but one question I wanted to ask was just what your feeling was about the Trump administration? What that will mean for you – your US business, maybe Obamacare or other things? But just your thoughts generally on that would be appreciated.

Richard Cousins
Sorry who? I don't think we have an intelligent view. Our US business, I have to tell you, is in great shape. We were there for a week back in December. What I like about it is it's the balance across – we've talked before 24, 25 sub-sectors. We're seeing steady, disciplined growth across the whole of our business. You know whatever happens to the US economy people have got to eat, outsourcing just moves quietly forward. I'm very bullish about the US. What will be will be politically, won't it?

Wyn Ellis
Are you starting to see like-for-like growth there now? Is that reasonable to assume that that's the strongest area for like-for-like growth across the business?

Richard Cousins
Do you really think our business turns that quickly? We serve 5 billion meals a year and people, you know – this is a slow-moving business. So have we noticed any – what any upticks since inauguration?

Wyn Ellis
Yep.

Richard Cousins
How good do you think our data is?

Wyn Ellis
No, no but –

Richard Cousins
I've no idea.

Wyn Ellis
– the US economy's been reasonably buoyant for a while, employment growth has been continuing. I'm not saying that it's just recent but I'm just wondering whether those trends are picking up and you're starting to see some genuine like-for-likes?

Richard Cousins
I think our US business has seen good like-for-likes for some years now since the trough of 2008/2009. We've put a lot more effort – we had a big conference on it in 2013 – into MAP 2 and I think we've been rewarded for that. If anything, I think in the tech sector where we're probably over weight and I've enjoyed it, we've seen volumes come down a fraction, because it's just

been booming for the last three or four years. But I think if we look at the US as a whole, the like-for-likes continue to be steady, positive. I don't think you should expect big plusses or big negatives from that trend.

Wyn Ellis

Okay. Thank you.

Operator

Thank you very much and before we move on to the next caller, as a reminder please press 01 on your telephone keypad if you wish to ask a question. 01 on your telephone keypad if you wish to ask a question.

Our next question comes from the line of Mark Irvine Fortescue. Please go ahead, your line is open.

Mark Irvine Fortescue

Morning everyone. I appreciate this is a trading update and you might not want to cover it. But just on the Tesco-Booker deal, if it were to go ahead, can you offer any first thoughts about potential impact to the supply chain? Thank you.

Richard Cousins

No.

Mark Irvine Fortescue

As expected. Thanks Richard.

Operator

Thank you very much and moving on to the line of Jarrod Castle with UBS. Please go ahead your line is open.

Jarrod Castle

Morning gents and thanks. Two please. One if there's any commentary in terms of M&A pipeline; you know what you're seeing there or not?

And secondly just on rest of the world, you seem very comfortable in terms of the countries that you currently operate in, are there any gaps that you might be looking to enter when you look at your regional mix? Thanks.

Richard Cousins

Okay, let's do those in reverse order. I'll talk about rest of the world and then Johnny M&A pipeline. No, it's an interesting question. We keep this under constant review. We think our rest of world portfolio is about right. Do we want to enter any new countries? We might enter one, but there again we might exit one. I think it's important discipline for us as we've done, hopefully quite well over recent years, that we don't diversify our model, we keep it nice and tight. So our core thinking is just that. In terms of M&A Johnny?

Johnny Thomson

Yeah, I guess over the last five to ten years we have spent on average around about 200 million a year on M&A. As you know the first quarter of this year we spent 25 million. Of course it's lumpy. At this stage, we'd probably expect to be spending somewhere in the 100 to 200 million range for the full year. The pipeline – well the pipeline small bolt-ons is encouraging. There's some things in there that we're looking –

Richard Cousins

There's a couple of medium-sized ones as well.

Johnny Thomson

Yeah, and you know as we said before I think we're probably just a fraction more ambitious about Europe. So we're looking at a couple in Europe, but again just to emphasise they are of the small to medium size. So yeah, it's encouraging but the guidelines from 100 to 200 million are probably still a sensible assumption for the moment.

Jarrod Castle

Okay, thanks very much.

Operator

Thank you very much. And there are no further questions in queue and with that I would like to return the conference call to the speaker.

Richard Cousins

Okay, thank you for your time, everybody, appreciate that and we'll see you in mid-May. Thank you.

Operator

Ladies and gentlemen this concludes today's conference call. Thank you very much for attending. You may now disconnect your lines.