Compass Group 2018 Full-Year Results

Presentation

Dominic Blakemore

Group Chief Executive

Good morning and thanks for joining us. Once again, we've got a full agenda today. So I'll begin by making a few comments on the highlights of the years, Johnny will then take you through the financials and I'll come back for a more detailed review of our operating performance and our strategy going forward. Of course, there'll be plenty of time for questions and answers at the end of the session.

I'm delighted to say that 2018 was another really good year for Compass. Organic revenue was up by 5.5%, towards the higher end of our target range. Our operating margin was 7.4%, up slightly as expected as we continue to generate efficiencies to offset cost pressures. Cash continues to be strong with over £1.1 billion of free cash generated in the year, up by 17%. Constant-currency earnings per share was up by 12.5% and we're proposing to increase the dividend by that same amount. So on that positive note, I'd like to hand over to Johnny.

Johnny Thomson

Group Finance Director

Thank you, Dominic, and good morning everyone. So let's start, as usual, with revenue. The recent strength of sterling against other trading currencies had a negative impact of £1 billion on 2017 revenues. Growth in North America continues to be exceptional, with revenues up 7.8% driven by strong growth in B&I, vending, healthcare, and sports and leisure. New business wins were excellent and retention was again very strong at 97%. Like-for-like revenues reflected sensible pricing and stable volumes. The pipeline remains encouraging and we expect another good year in 2019.

Europe grew by 2.1%, second-half weighted, as expected and driven by strong net new business in the UK. We're also seeing improvements in retention in Continental Europe. Finally, we had some exciting new business wins in France and Germany in quarter 4. Organic growth in rest-of-world was 2.9%, driven by strong performances in Turkey, China, India and Spanish-speaking Latin America. In the fourth quarter, the final

Australian LNG project began to transition from construction to production. This, together with ongoing challenges in the Brazilian market, will continue to subdue rest-of-world growth in 2019. As a result of these movements, Group organic revenue grew by 5.5%, at the top end of our financial model.

FX reduced operating profit by £79 million. Growth in absolute operating profit, of £94 million in North America and £35 million in rest-of-world, was offset by an £18 million decline in Europe due to the challenging conditions in the UK. As a result of these movements, we saw a 7.1% increase in constant-currency operating profit. Margins in North America remained strong, at 8.1%, as we continue to drive efficiencies and take some pricing, enabling us to offset labour headwinds and the incremental costs of exciting growth. Given North America's excellent top line, we expect margins for 2019 to remain unchanged. In Europe, margins fell by 50 basis points as expected and due entirely to continued inflation and weak volumes in the UK. The benefits of the actions we have taken this year will flow into next year and we expect that margins will begin to improve again in 2019, but we note that the UK market remains uncertain.

We were very pleased that margins in rest-of-world improved by 80 basis points. It's been a key area of focus. We continue to drive MAP efficiencies, enjoy the benefits of the 2015 restructuring, and are improving our overhead leverage in higher-growth markets such as Turkey. For the Group as a whole, the mixed benefit of higher margins in North America and the excellent improvement in rest-of-world offset the decline in Europe. As a result, as we expected, we delivered modest margin improvement in the year.

FX has a translation impact only for Compass. The strengthening of sterling has a negative translation impact of £79 million on operating profit. A 1% move in sterling against all of our trading currencies would change full-year 2018 operating profit by around £15 million. This is important to note given potential future FX volatility. If current spot rates continue through 2019, FX would positively benefit 2018 by £58 million. Further details regarding FX sensitivities are found in the supplementary slides.

Let's take a look now at the bottom of the income statement. Net finance costs were £114 million, in line with last year. We expect net finance costs in 2019 to be around £120 million, slightly above this year primarily due to higher rates in the US. The enactment of the US *Tax Cuts and Job's Act* in December 2017 had a positive impact on our effective tax rate, reducing it from 25.5% last year to 24% this year. Our current expectations are that the 2019 ETR will remain consistent at around 24%. However, the tax environment continues to be very uncertain, with more intense tax authority positions globally. We await the results of the European Commission's investigation into the UK-controlled foreign company rules, although at this stage we do not expect it to have a significant impact on our ETR. Constant-currency EPS grew by 12.5%, boosted by last year's share consolidation and this year's tax benefit, with underlying trading EPS growth of around 8%. In line with our dividend policy, we are proposing to increase the full-year dividend by the same 12.5%.

So moving onto cash flow. Depreciation and amortisation increased slightly to £500 million due to our continuing investments in CapEx. Gross capital expenditure was 3.5% of revenue. We continue to see CapEx as an important tool in driving our strong growth rates and excellent returns. CapEx helps improve retention. Contracts with

CapEx have an average life of eight years, versus the overall average contract length of five years. We expect CapEx to be up to 3.5% in 2019. Working capital performance was very strong. We were expecting a working capital inflow of around £50 million as the impact of the extra payroll in 2016 in the UK and US reversed. However, the performance was even better than expected as we worked hard to mitigate the operational impact of a [weaker] year end. In 2019, we expect working capital to return to its normal small outflow. As a result of these movements, operating cash was up by 11% on a reported basis and 17% on a constant-currency basis, with conversion at the top end of the range at 91%.

Net interest was broadly flat. The cash tax rate was 20%, slightly better than last year, mainly due to the lower tax rate in the US. For 2019, we expect the cash tax rate to be between 20% and 22%. So for all these reasons, free cash flow was up 17% and conversion was strong at 66%, above our target range of 55% to 60%. We maintain guidance in the target range for free cash flow conversion in 2019.

Looking at the balance sheet and again starting on the left of the chart. Opening net debt was £3.4 billion and the business generated cash of £1.9 billion before CapEx. We invested £757 million in net CapEx to support our long-term growth. Acquisitions totalled £452 million, principally that of Unidine in December 2017, and disposals £39 million, netting to a total £413 million. We returned £548 million to shareholders in the form of ordinary dividends. FX and other items have increased net debt by £117 million. Therefore, our net debt to EBITDA on 30 September 2018 returned to our target leverage level of 1.5 times.

As you know, we are actively managing our portfolio to increase our focus on food in our core markets. As a result, we are disposing of some non-core businesses totalling up to 5% of Group revenues. Examples of deals done include Bateman, a meals-on-wheels business in the US, and VSG, a security business in the UK. We are making good progress and thus far have sold or exited £300 million of annual revenues and received £50 million of [inaudible]. We booked a net loss on sale and closure of these businesses of £58 million, mostly non-cash asset impairments and exit provisions. The portfolio review is not expected to change our overall organic growth and margin profile. Indeed, this year's disposals are expected to be margin neutral. I've summarised on the slide the disposals and acquisitions that completed so far, so you can update your models accordingly.

We continue to be excited by the structural growth opportunity in our sector, and to invest in the business via CapEx of up to 3.5% of revenues. We pursue bolt-on opportunities that strengthen our capabilities, support our long-term growth ambitions and meet our strict returns criteria. Our aim is to maintain a strong investment-grade credit rating. We will continue to return any surplus cash to shareholders through share buybacks or special dividends to target a full-year net debt to EBITD ratio of around 1.5 times. The disposal program does not change our priorities for uses of cash. Proceeds will be used to fund attractive bolt-on acquisitions or returned to shareholders. Due to the uncertainty of the timing of any such acquisitions or proceeds from disposals, we will update you at the half-year on our expectations for cash available for returns.

A quick word on the new accounting standard IFRS 15, revenue from contracts with customers, which we will adopt in 2019. The adoption of this standard will have a minimal impact on our financials, given that we have a straightforward revenue recognition policy and do not undertake any long-term contract accounting.

Importantly, the new standard will not impact our KPIs of organic growth, nor margin progression. As usual, I've pulled together some of the key 2019 full-year assumptions on one page as a reference for your modelling.

In conclusion, 2018 has been another excellent year of performance delivery for Compass. We continue to deliver strong organic growth, improve our industry-leading margin, generate significant amounts of cash, invest in the business and grow the dividend. Dominic, over to you.

Dominic Blakemore

Group Chief Executive

Thanks, Johnny, and given that this is your last results presentation after nearly a decade of contribution to Compass, I just want to say a personal thank you and we wish you all every success in the future. Thank you.

So starting with growth, we continued to perform really well in new business wins, which was strong at 9.1% across the Group. Retention is excellent at 95% as we benefit from improved retention processes, especially in Europe. Like-for-like revenues reflect sensible pricing partly offset by the weaker volumes in the UK and our offshore and remote business. As a result, our organic revenue growth was 5.5%.

Let's now look at the performance of each of the regions in turn. I'll start with North America which now accounts for 60% of the Group and where we had another excellent year. Organic revenue grew by 7.8%, with good growth in B&I, healthcare, vending, and sports and leisure. Retention, a key metric for us, was 97%. Margins remained at 8.1% despite the strong growth rates and the continued above-average labour inflation.

I'm really pleased that most of our growth in North America comes from relatively small to medium-sized accounts across all sectors. For me that's a testament to the health of the business and the future sustainability of this performance. It's also, of course, the result of our strategy of sectorisation and sub-sectorisation, which means we can really focus on different client requirements, ensuring we have a tailored offer to meet all of our client needs. As a result, we have a portfolio of really well-known clients that include 98 of the companies in the Fortune 500, and a wide range of accounts like Google, the Harvard Business School, the Mayo Clinic and the US Open. The sources of our growth in North America are reassuringly consistent, with a third of our growth coming from first-time outsourcing, a third coming from regional players and a third coming from larger players. Our pipeline for 2019 continues to reflect this shape as well.

Labour inflation in North America has been a theme for some years now and we relentlessly focus on efficiencies to offset this continued headwind. Basic labour management, improving productivity and work design are all levers that we continue to pull to manage cost headwinds. To the extent that availability of labour is also a challenge, we're consistently improving our recruitment and retention processes. For example, this year we consolidated our recruiting onto the SuccessFactors system and used video interviewing, artificial intelligence and pre-employment assessments to all improve hiring. This, combined with better onboarding and better training, has resulted in a 2 percentage point reduction in our overall staff turnover, which of course lowers cost and also improves efficiency. As we've always said in our business, it's all about operational execution and I think that's a great example.

In Europe, the picture remains mixed. Net new business in the UK continues to be very good, driven by new business wins in B&I, defence, healthcare, and sports and leisure, so broad-based across the business. But, meanwhile, growth on the continent has been more subdued, although we're pleased to say growth has accelerated in the fourth quarter driven by good wins in both France and Germany. Margins were down in the region in the year due to the challenges we've been seeing in the UK. The benefits of labour efficiency programs, pricing and increased purchasing savings were offset by weaker volumes. Although the run rate has improved, the impact Brexit will have on the UK clearly still remains unclear.

Performance in our rest-of-world region is improving. Organic revenue was up by 2.9%. But excluding our commodities business, we saw 5% growth driven by 20%-plus growth in Turkey, India, China and our Spanish-speaking LATAM countries. Brazil remains tough for us, but we're taking actions to improve our performance here. Margins improved by 80 basis points as we leveraged our scale and continued to drive efficiencies throughout the region. In the fourth quarter, we began the final transition from construction to production of a major project in our offshore and remote business. So I now expect that the commodity drag in the region will end by the second half of 2019.

Moving on now to strategy. We've been successful with our strategy of focusing on food and we remain really excited about the ongoing market opportunity in food services. We're the global market leader today and yet we still only have a 10% share. We've built significant competitive advantages that allow us to exploit this structural growth opportunity in our industry and deliver consistent long-term growth.

I first introduced our strategic priorities of performance, people and purpose at our half-year results in May. People and purpose are becoming ever more important drivers of financial and operating performance. We really need to focus on them to manage an increasingly challenging labour environment and to deliver better-quality, more-sustainable long-term growth. At the end of October, we held our global leadership conference where we officially launched the three Ps and shared with the wider team the details of how we're going to rollout and execute these strategic priorities and track our progress going forward. I'd like to take you through some of the highlights.

Staring with performance and the importance of continuing to drive organic growth. We've got great sales and retention processes and these are really, really well embedded throughout our organisation. When we combine these with our sectorisation and sub-sectorisation approach and the scale that we have in our major markets, it results in improved win rates and better retention across all of our regions. We're actively simplifying the portfolio by disposing about 5% of revenues of non-core assets. To be clear, these businesses are in either single-line support services such as cleaning and security in the UK, non-core geographies like Gabon, or they're non-core food businesses such as some of our smaller travel concessions business. We continue to look at bolt-on acquisitions that strengthen our capability. I think a really good example of this was Unidine, which enhanced our capability in the attractive senior living sub-sector and brought some great management talent on board.

We have three operational priorities to unlock further efficiencies in the business. These are pricing, purchasing and productivity. We've drawn up a set of blueprint best practices and broken them into sub-processes. We'll roll these out and implement them across our top 10 markets, modelled on a bronze-silver-gold approach which we've previously used to successfully adopt other initiatives across the Company. For example, in pricing we'll have a dedicated resource that ensures consistent contract compliance, in purchasing we'll use product-level data consistently across our markets to reduce the number of our suppliers, and in productivity we'll consistently use both labour scheduling and time and attendance tools to manage our labour costs. There remains much to do and, of course, lots of opportunity.

Given the challenges we're facing with cost and availability of labour, improving our employment proposition and becoming a true people business is key to attracting and retaining the best talent. We've identified the main pillars to enhance our employee proposition and we're now rolling them out across the Group. These include new unit manager training programs and simplifying the frontline processes to enable our unit managers to spend more time with their team and with their clients. A high-performing and engaged workforce with low turnover means we'll deliver great food and experience to our clients and consumers and, importantly, will be more efficient and cost effective.

Having a sense of purpose to manage social and environmental matters is really important now to our clients, our consumers and all of our employees. Safety continues to be the foundation. We track our employees' safety rate and our global food safety rate on a monthly basis, by country, by unit. Both have improved by more than 30% in the last five years and we expect to make meaningful progress in the years to come. We're combining those initiatives with a new level of commitment to sustainability with regards to, first, health and wellbeing through nutritional education of our consumers, the environment by promoting a reduction in food waste, and making the world a better place, for example, by working with our suppliers to encourage responsible sourcing. We have a set of clear initiatives and commitments and will record and report our progress against these criteria. With our scale and reach we have a fantastic opportunity to make a difference here.

Bringing all of this together, by focusing on performance, people and purpose and on the operational priorities of pricing, purchasing and productivity, we'll continue to deliver the Compass model. We aim to grow organic revenue by 4% to 6% with modest margin improvement. When we're at the higher end of that growth range margin improvements is minimal, and at the lower end margin improvements is more meaningful. We'll grow the ordinary dividends in line with constant-currency earnings. We'll invest up to 3.5% of our revenues in CapEx to support some really attractive growth opportunities across the Group. We'll continue to do bolt-on acquisitions to strengthen our capabilities, and we're in the process of exiting non-core businesses that dilute management focus. We'll then return any surplus cash to shareholders, whilst keeping net debt to EBITDA at around 1.5 times.

So in summary, 2018 was another excellent year. We've launched our strategic and operational priorities and the focus is now on execution. Our outlook for 2019 is positive and we expect organic growth to be in the middle of our 4% to 6% range with some modest margin progression. Thank you for your time. We're now happy to take any questions. Of course, as always, can you please state your name, the company you represent before asking the questions. Thank you.

Q&A Session

Richard Clarke - Bernstein

Good morning, Richard Clarke from Bernstein. Three questions, if I may. I'll ask them each in turn if that's alright. Just starting on labour inflation and your like-for-like growth, I mean obviously you're ahead on new business wins, but your like-for-like growth has lagged what your peers have printed, by about 50 to 100 basis points, whereas maybe you would have expected the opposite given your food focus. So is there something about your strategy or your portfolio that means you're not able to pass pricing on and you're having to use efficiencies to offset labour inflation more?

Johnny Thomson

Well, I won't comment on what our peers have said. Our like-for-likes are around 2%. It's worth bearing in mind that over the course of the last year, two to three years that we have seen some volume depression principally because of the commodities sector, so therefore pricing of course has been a fraction higher and that reflects the scenario with labour inflation. We're also working very hard in MAP 2, as you would expect us to do in the US, which should in time continue to develop our like-for-like capabilities. So I think we're feeling comfortable with it.

Richard Clarke - Bernstein

Second question on CapEx. Just maybe start with a point of clarification. The release says around 3.5% this year, the presentation says up to 3.5%.

Johnny Thomson

Yes.

Richard Clarke - Bernstein

Then maybe as a follow on to that, this year was explained away by the LA Dodgers' contract, but you're saying you're therefore expecting CapEx to increase again if your revenue increases. So are there more one-offs or is this now the sustainable level you're expected to be at?

Johnny Thomson

Well, I mean I think I'd start by saying that we're very positive about investing CapEx into our business. I mean I think the nature of your question is slightly negative. We actually see it the other way around. We're delighted to be investing in some of the opportunities that we've got. As long as we can continue to derive a premium growth level and excellent returns at 20%-plus, then from my perspective that's a very good use of our cash. Now, specifically to your question, we did get to 3.5%. We did, first of all, at the half-year say up to 3.5% would be our new guidance. This year, as you correctly point out, we had the LA Dodgers which took us to the top end. For next year we're guiding up to; so not necessarily at 3.5%, but up to. But, again, if we see opportunities to invest in good pieces of business then we'll take them.

Richard Clarke - Bernstein

Okay, great. Maybe the last one I'll try and not ask it negatively. But the strategy refresh you talk about in the release and you've talked about more focus on sustainability and working for all stakeholders, is this an enhancement? Do you think this opens yourself up to new contracts, gets yourself into new areas? Or would you say this is something maybe you were a little bit weaker on and you needed to improve to match maybe some peers or to open yourself up to clients?

Dominic Blakemore

I think it's really exciting. I think the more we talk to our clients and our consumers, the more personally interested they are in seeing stronger and better commitments from all of their partners. I think one of our major clients has run a sustainability RFI process before it even moves to a food quality and cost process. So I think that demonstrates quite how important it is in this space. I think it's going to create lots of new opportunity. I think we've done a lot of good things across our business. We haven't been as thoughtful about joining them up and using scale to drive them with real intent.

So I think a great example of where we're doing that is the Stop Food Waste Day. It started in the US business as a single day on 27 April two years ago. We've now rolled that out across 20 countries and we'll do it across all of our portfolio and much deeper as well. It's not just about a one-day event. It's about creating awareness throughout the year by tracking and measuring food waste in restaurants and how we can reduce that meaningfully alongside our consumer. So I think those things will enhance our operational performance and they'll enhance our client proposition and, therefore, we see it as a real positive.

Richard Clarke - Bernstein

Thanks very much.

Dominic Blakemore

Jamie.

Jamie Rollo - Morgan Stanley

Thanks. Good morning, Jamie Rollo from Morgan Stanley. Again, three please, but I guess I'll ask them in turn. You had an excellent fourth quarter in North America, so 9.5% or so. I don't recall a quarter that strong for many years at Compass. Were there any one-off, if you might call them that, benefits there? Also, if we're talking about North America, could you discuss the GPO market, whether there have been many changes there? Specifically, what might the commission impact have been from that contract loss to one of your competitors on that third-party Dining Alliance revenue? We're getting some questions from investors on that, thank you.

Dominic Blakemore

So was that two or three questions there, Jamie?

Jamie Rollo - Morgan Stanley

That was one I'm afraid. That was a general question about North America competitive environment, one question.

Dominic Blakemore

We could be here a while. Well, I'll take quarter 4 and then Johnny can talk to the GPO position. I mean, first of all, I think it's fair to say we're delighted with the fourth quarter, not just in North America but across the Group. So whilst you talk about the near 9.5% in North America, we also enjoyed a very strong quarter in Europe, in the UK and in Continental Europe, so we're very excited about that. Specifically, with reference to North America, we were [lapping] a little bit of weather in the previous year, we also had a strong sports and leisure calendar. So I think there was probably a percentage point or more of froth in that number, but that said it's still a very strong number in the quarter for North America. With the Group at 6.5% in the quarter, we probably think that more like a 6% but with strong momentum going into next year. So I think it gives us good confidence for 2019.

Johnny Thomson

On the GPO, it's a dynamic environment right now I'd say. Of course, we were a fraction disappointed on the Dining Alliance contract that you alluded to, Jamie, but that was for commercial reasons that we decided that wasn't the one for us. What I would say though is that the growth in our GPO is still significant. It actually runs at a higher rate than the US top line. So we're still managing to grow nicely and, actually, since that we've replenished fully the 23 billion of procurement that we do through GPO. So we're still very, very positive about it.

I still think that we have significant competitive advantage. Not just because of scale in absolute numbers, but the real importance here and how you drive the advantage is through compliance. Because what you have to do is not just buy the total volume, but you also have to have in-unit compliance. Which sounds very operational, but if you're not buying the right products and units, then that execution doesn't generate the efficiency that you would want. I think in our instance, our execution and, therefore, our compliance is excellent, which helps us still to maintain a significant advantage.

Jamie Rollo - Morgan Stanley

Thanks. Then on the contract disposals, I guess by definition from the slide you gave us, it's fair for us to say that the future disposals will be above average Group margin given the [1% so far or 2%]?

Johnny Thomson

Yes.

Jamie Rollo - Morgan Stanley

How should we think about the proceeds on those? You've made about 8 times EBIT on the small amount you've sold so far. The balance sheet holding value for discontinued is a pretty low number. Is that 8 times the right sort of number? Is there any impact on your 4% to 6% organic, or is this all disposals, there's no exits within that number?

Johnny Thomson

Yes, I mean I think the 4% to 6% remains intact. I think what you say about margin profile is correct. We've obviously - what we've completed so far is at a lower margin. As you would expect, we've sought to exit those businesses of lower margin earlier, as you would expect. The businesses that we will exit will be of higher margin. In fact, just yesterday, for example, we signed a deal for a South African business which is above the Group's average margins. So, again, there will be puts and calls, but overall I would expect that disposals and acquisitions will be neutral on the Group's margin and on the top line in 2019.

Dominic Blakemore

If I could just add to that, we're really pleased with the progress we've made. So following the disposal Johnny talked about in South Africa, we're about a third of the way through the program with active processes ongoing for others. So I think we're managing it with pace. It feels cathartic in the business that we're able to focus really hard on the core. Whilst I don't think that changes the 4% to 6% growth range, I think it gives us confidence that over time we'll access the higher ends of that range with a tighter, more focused core.

Jamie Rollo - Morgan Stanley

Proceeds?

Johnny Thomson

Yes, proceeds. Well, multiples, Jamie, I won't necessarily comment on exact multiples. We would expect that the proceeds of the businesses that we are about to sell in the future of course will be significantly higher than those that we have sold. So, yes, multiples will be better. Therefore, you would expect profits on disposal coming through the rest of this year and into '20.

Jamie Rollo - Morgan Stanley

Just a final quick one. On your working capital inflow you had quite a big benefit from trade payables, about £260 million increase on the balance sheet, so obviously delaying or taking longer to pay suppliers. Is some of that going to reverse in '19 or '20?

Johnny Thomson

No, I don't think so. I think, as I said when I was making the presentation, we've worked hard across the balance sheet on our working capital. We were concerned - it sounds very operational, but when the year-end falls on a weekend that can have a damaging effect on your working capital. So we worked very hard not just on the trade payables but on the receivables too. So I don't think it'll have a significant impact into 2019. We should also mention that in the size of business that we are, I think these kinds of swings in working capital are not necessarily unusual and we've had them over recent years too. So we'll guide you to a small outflow, but you will see some puts and calls on that in future years.

Kean Marden - Jefferies

Morning, it's Kean Marden from Jefferies. May I just return to the labour market in the States? Johnny, could you provide some insight into what your staff churn number is in aggregate in the US? You mentioned, Johnny, that I think you said a 2 percentage point improvement during the year. There's obviously been quite a big shift in some of the hiring conditions in the US labour market in the second half, with some big employers changing their employment stances. So maybe you can give us an understanding of how that trended during the year? Then, finally on that topic, how should we think about onboarding costs for your business, so training, uniform, those type of things which one might expect to pick up in line with the staff churn number? Thanks.

Johnny Thomson

Sure. I mean I think the first thing to say is we're quite pleased with the progress we've made in North America on managing both labour cost and availability. I think, secondly, this hasn't been a phenomena of the last one or two years, but really I think post-Obamacare, when we saw the pick up in labour rates then, we've been working really, really hard on a variety of initiatives, and again highly operational. So I think we're pleased with how we're managing it. First and foremost, it's all about mitigating the cost inflation, and better managing churn or turnover is one of those tools. Our labour turnover, typically the industry turnover is around 30% to 40%. So, actually, improving that 30% to 40% by 2% or a 5% improvement is meaningful. So we're pleased with what we've done there. A lot of that has been about better information, data and systems, and a lot of basic blocking and tackling. So I think that's been very important for us.

I think the other point around labour in the US is we're currently looking at a buoyant economy and our food cost inflation is lower than the labour inflation. We have contracts which allow us to pass inflation through quicker than we have in Europe. So I think, in the round, a good package of efficiency initiatives, combined with those contracts and maybe a more willing consumer where we see less volume sensitivity and a client that is in growth mode, makes it a different conversation to that which we've seen in the UK, for example. So I think we've made good progress.

I mean in terms of the boarding costs, I wouldn't have a rate or a specific figure for you. I mean it's just another great area of opportunity. We have a line within our P&Ls called in unit overheads and that's where we absorb all of those costs, and we're constantly looking at what we can do to manage those costs now.

Tim Ramskill - Credit Suisse

Morning, Tim Ramskill from Credit Suisse. I've got I think three as well. Just sticking with the same topic of labour, just another nuance, in terms of your use of contract labour or temps, again is that a consideration set in a very tight labour market and maybe just comment on how you're managing that? Second question is very specific around questions I've had from investors about some of your approach towards CapEx and how you're writing off intangibles. Your intangibles seem to written off over seven or eight years, yet you would talk about typical contract lengths of three to five years. Is it merely just the fact that those more capital-intensive contracts run for longer? Is there anything that you'd add on that one? Then, finally, around Foodbuy, just talk us through how you've utilised Foodbuy in terms of your price positioning in the marketplace and how you feel your price offering to clients has evolved over time?

Dominic Blakemore

If I take the first and the third and then Johnny can reflect on the CapEx point. In terms of contract labour, I haven't got the specific numbers to hand, but I think it's about more than 80%, possibly even 90%, of our labour is fixed contracted labour, where we have the direct relationship with the employee. Then the balance we pick up through more flexible, variable contract labour arrangements. Obviously, given the scale of our business, it allows us to have sensible conversations with the agencies around the cost of that labour. We work very, very hard to ensure that we're managing that labour, through particularly time and attendance processes, with great diligence. So I think it's more of the same for us. I don't see that as being a particularly different issue, but again it's something that we're managing very closely.

In terms of Foodbuy, look I think we've talked a lot about Foodbuy in the past. It is part of our success in North America. Undoubtedly it's one of several strategic differentiators I believe, in terms of the scale. But as you heard Johnny said earlier, it isn't just about scale, it's about compliance, it's about process, it's about data. I think that we have got an advantage there with the information that we have and how we manage the levels of compliance and overlap. I think undoubtedly there's more opportunity to grow our volumes with third parties. We've signed a couple of exciting deals this year into new sectors, where we'd be managing the food and beverage spend into new hospitality segments where actually the run rate is quite significant. So we think there's continued opportunity as we look forward.

As we know, it comes with both a fee which covers the overheads of running the business, but more importantly it gives us I guess disproportionate aggregated scale. Which of course allows us to price, it ensures we can have the best cost, but also the best quality for our clients. This clearly isn't something which is unavailable to the competitors. Our competitors are running similar models of significant scale also. So I don't think it's something which is going to change dramatically overnight.

Johnny Thomson

I'm glad you asked about intangibles, an opportunity for me to clear it up. We've got just over £1 billion on the balance sheet of client contract intangibles. For the most part, just to clarity, those are related to kitchen refurbishments or kitchen equipment, et cetera. So in nature we see them as very close to PPE and, therefore, for that reason, take the accounting decision to amortise them through operating profit. That hasn't changed through the IFRS 15, it won't change through IFRS 15. But the key commercial point is, as I said in my presentation, that those contracts that do attract CapEx, such as these intangibles, have a contract life of eight years as opposed to our overall contract life of five years. So, therefore, from our perspective, it is working to drive better retention and, therefore, better growth rates through the long term. So we think it's an important tool to do that.

James Ainley - Citigroup

Thank you, it's James Ainley from Citi. A question on delivery, please, because there's a lot of questions around the impact of delivery on your business going forward. Are you seeing any evidence so far of declining volumes or declining participation rates in contracts where there's a delivery threat? Then, secondly, moving on from that, one of your competitors at its CMD talked about investing in its own delivery expertise. Can you talk about what investments Compass is making in technology to futureproof its business?

Dominic Blakemore

Yes, I mean, first of all, I think we actually have a few statistics around the delivery model. I mean, from what we understand in the US, more than 80% of total delivered food is for at-home consumption and typically takes place Friday to Sunday. So it's only a small element of that, around somewhere under a fifth, is delivered into offices. In many ways we see it as bringing the high street into an office for those consumers which would in part be going into the high street in any event. I think the positive about it is it creates quite a lot of excitement around the food experience again. We're very focused on what types of food are being delivered in, how we have to adjust our offer to give consumers on site something as exciting or as vibrant a choice, and I think it creates positive noise within our industry. As with anything, there are a number of trends that are going on, both positive and negative, within the food space at work. I think, in the round, we're not seeing any dramatic negatives, but we're not complacent.

In terms of an own-delivery model, we have looked at it and considered it. We have got a digital team dedicated to exploring how we can use innovation or digital solutions within the contract catering market and on site to our clients. That's one amongst other things that we'll consider and are doing things on. I don't think it's a sufficiently material part of what we do for us to really talk about it any further.

Tim Barrett - Numis Securities

Thanks, Tim Barrett from Numis. Can I ask two quick things? Firstly, you sounded a bit more excited about Europe, Continental Europe, in the fourth quarter. Do you expect that momentum to continue through this year? Then just another quick thing on labour. Is there anything you can do on contract specification around passing labour costs on? Specifically, is it generally included where there's a fixed-price-plus indexation clause? Thanks.

Dominic Blakemore

If I take the question on labour and then Johnny can pick up on - I'll take the question on Europe, Johnny can pick up on labour. Yes, I mean I think we are pleased with the fourth quarter performance in Europe, but it's only a quarter so we remain cautious. I think what's important is we're seeing an improvement in retention in Europe and in forward-looking retention, which gives us the confidence that we should see is sustained for a while. We know we've won well in Europe, but retention has been the Achilles' heel. So I think that improvement in retention is meaningful.

I think on the flipside, as we've talked about at a number of previous meetings, we've been working very hard on our European offer. So we've put our business into business units to ensure a consistency of offer across broader scale. We've made a number of acquisitions of small, niche, higher-end catering companies. I think that gives us something different to offer. We've created a premium B&I brand in the French market, which is something we'll look at doing elsewhere. So in a number of ways I think we've put in place a number of building blocks and we're seeing positive momentum. So we're excited as we look forward. That specifically references Continental Europe. On top of that, we've talked about decent growth and momentum in the UK where we've grown in the order of 6% and would expect to do so again next year. So it's a more positive picture, but still early days and lots to do.

Johnny Thomson

Just on the pass-through pricing, we obviously have different contract structures, almost every single contract is different in its own nature. But, in general, we have three different kinds of contracts, a P&L contract, a cost-plus and a fixed-price. I would say the first two are I guess more straightforward and quicker for us to pass through cost. The latter perhaps takes some time and negotiation, although typically we would have indexation clauses even in those fixed-price contracts related to labour and to food costs, such that our teams were able to negotiate with some contractual background. I would just point out also that it's important of course for us to be passing on to price, but we do see it as our responsibility and our opportunity, in fact, to differentiate ourselves by working, first and foremost, on efficiencies as the key value proposition for our clients, and we focus on that first and foremost.

Dominic Blakemore

Any more questions from the floor? Okay, well, thank you all very much for your time and attention today and we look forward to seeing you at the half-year.

[End]