

Adoption of IFRS 15: Revenue from contracts with customers



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Disclaimer

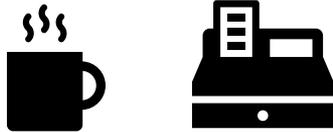
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How we generate revenue

Compass generates revenue by providing food, cleaning and other soft support services



Revenues from **CLIENTS**:



Revenues from **CONSUMERS**:

Examples

Compass raises a monthly invoice to a client:

Eg. Number of meals served X price per meal (fixed price contract)
Or Costs incurred plus management fee (mgt fee contract)

Compass operates a coffee outlet at a hospital, revenue is recognised when consumers buy the food and drink

From a revenue recognition perspective, our business model is a very simple support services provider

No long term contract accounting which would require judgement over level of completion in order to recognise revenue

Client investments

Compass makes investments in clients where returns are attractive:



Compass purchases equipment used to fulfil our obligations under the client contract e.g. ovens, catering equipment



Compass pays the client an investment for exclusive access to consumers e.g. at a sports stadium



Compass pays the client a signing on bonus

IFRS 15: Revenue from contracts with customers

- New standard to be adopted for FY19 (year ending 30 September 2019)
- No significant impact expected to timing and recognition of revenue
- Minor revenue reduction (circa 0.5%), minor increase in profit, modest absolute margin increase
- Comparatives will be restated for FY18 so no impact on key KPIs of organic revenue growth and margin progression
- Our guidance and outlook remain unchanged
- Balance Sheet reclassifications including new asset category “contract fulfilment assets”
- No change in cash

Income Statement

Measure	Expected changes**	Accounting change
Revenue*	↓ c.0.5%	Certain amounts previously treated as an expense will now be deducted from revenue
Operating* profit	↑ c. 0.3%	Timing difference between capitalisation and amortisation of salesforce commissions
Margin*	↑ c. 4 bps	Due to revenue reduction and small operating profit increase
EBITDA	↑ <1%	Increase due to amortisation of sales commissions

As comparatives will be restated, **no expected impact on organic revenue growth or margin progression**

Balance sheet

Measure	Expected Changes*	Accounting change
Contract assets - reclassification	c. £0.8bn	A reclassification, mainly of investments in assets used by Compass to deliver its contractual obligations reclassified from intangible assets to contract fulfilment assets
Contract assets - new	c. £40m	Salesforce commissions incurred on new business which was expensed is now required to be capitalised
Deferred tax liability	c. £10m	Deferred tax liability associated with the new capitalised salesforce commissions
Net assets	c. 2% increase	Due to capitalised salesforce commissions
ROCE	<10bps decrease	Increase in NOPAT due to the timing difference between capitalisation and amortisation of salesforce commissions Increase in average capital employed as a result of new capitalisation of salesforce commissions

Timeline

Event	Date	Description
IFRS 15 overview	13 September 2018	High level introduction of expected IFRS 15 impact
Full Year Results FY18	20 November 2018	Results to include quantification of expected IFRS 15 impact on FY18
Interim Results FY19	15 May 2019	HY19 results reported on IFRS 15 basis HY18 comparatives will be restated
Full Year Results FY19	26 November 2019	FY19 results reported on IFRS 15 basis FY18 comparatives will be restated

Q&A

