Compass Group 2019 Half Year Results

Presentation

Dominic Blakemore

Group Chief Executive Officer

Good morning and thank you for joining us. Before I begin, I want to welcome Karen, who started just over a month ago. She'll be around after the presentation, and you'll hear from her at the full year results in November. So moving on to the presentation, I'll begin with a few highlights on the half, and then Palmer, as you know, who's been Interim CFO for the period, will take you through the financials. Following that, I'll go through a more detailed review of our operating performance and our strategy going forward, and there'll be plenty of time for questions and answers at the end.

I'm pleased to report that Compass had a strong half. We delivered very strong organic revenue growth of 6.6%, and our operating profit increased by £52 million. Margin was consistent with last year at 7.5%.

In the first half, the business continued to be very cash generative, with free cash flow of £530 million. EPS on a constant-currency basis was up by 6.5%, and we're increasing the interim dividend by the same amount. The business is trading well, and we now raise our organic revenue growth guidance for the full year and expect to deliver organic growth and margin progression similar to last year.

On that positive note, I'd like to hand over to Palmer.

Palmer Brown

Interim CFO

Thanks, Dominic. Let's start by taking a look at revenue. Weaker sterling against our other trading currencies had a positive impact of £240 million on 2018 first half revenues. North America grew by 7.9%, with continued good levels of net new business across all sectors. Like-for-like revenue benefitted from pricing and a number of events in our sports and leisure sectors. Europe grew by 5.5% due to double-digit growth in the UK, mostly attributable to the defence contract wins and ongoing good growth in continental Europe.

Rest of world grew by 3.2%. Excluding the drag from offshore and remote, growth was 5%. We saw strong performances in markets such as Turkey, Kazakhstan, India and Spanish-speaking Lat-Am countries. As a result of these movements, Group organic revenue growth grew by 6.6% in the first half.

Turning to profit, after adjusting for FX, the 2018 operating profit was £899 million. Growth in operating profit was £52 million, a 5.8% increase for the Group. In North America, operating profit increased by £57 million and margin remained high at 8.6%, with our continued focus on pricing and efficiencies offsetting inflationary headwinds, most notably labour.

In Europe, high levels of new business mobilisation and weaker volumes were partially offset by some benefits from pricing and our actions managing the portfolio. For the half, profit in Europe was down £5 million, with margins diluted by 30 basis points. Profit in the rest of world was up £5 million and margin at 6.7%, consistent with the increased level reported in 2018.

Pricing combined with effective leverage of overheads, has offset inflation in the region. Consistent with the second half last year, we have increased the investment in central overheads to support our strategic execution. We now expect full year central overheads to be around £80 million. The mix benefit of higher margins in North America offset our Europe and rest of world regions, so overall, Group margin was 7.5%, in line with last year. This performance is consistent with the Compass model, at very high levels of revenue growth, similar margin.

Looking ahead to the full year and in line with our new guidance, we expect growth and margin progression at similar levels to last year.

Looking further down the income statement, net finance costs were in line with the first half last year at £55 million, and we continue to expect around £120 million for the full year. Our tax rate was around 23.5% in the first half, and this currently reflects our expectation for the full year. Constant currency EPS grew by 6.5%, broadly reflecting the growth in operating profit. In line with our policy, we are proposing to increase the half year dividend by the same amount.

Moving on to cash flow, depreciation and amortisation decreased slightly to £289 in absolute terms and remained consistent as a percentage of revenue. Gross capital expenditure was 3.3% of revenue. Our guidance for the full year is unchanged, and we expect to spend up to 3.5% on CapEx, as we use it as a tool to support our strong growth rates and deliver attractive returns.

Working capital was an £83 million outflow, mainly due to the seasonal profile of the business. For the full year, we continue to expect working capital to be a typical small outflow of between £25 million and £50 million. Operating cash conversion was at healthy 78%, consistent with last year.

Onto free cash flow, movements are consistent with prior year. The cash tax rate was around 17%, reflecting the usual timing differences in the first half, and at present for the full year, we continue to expect the rate to be between 20% and 22%. Free cash flow conversion was 56%, within our target range of 55% to 60%.

Looking at net debt, again, starting at the left of the chart, opening net debt was £3.4 billion, and the business generated cash of £925 million before net CapEx of £395 million. We invested £302 million in net M&A, consisting of £370 million on acquisitions, mainly in North America, and £68 million of net proceeds from the disposal program. £403 million was returned to shareholders in the form of ordinary dividends, and so on 31 March, net debt to EBITDA was around 1.5 times, in line with our leverage target.

The work we started last year in managing our portfolio and focussing on food in countries with scale continued during the first half. We are making good progress with the disposal program. Deals completed during the half include VSG, our security business in the UK and the sale of our South African and Egyptian businesses. Cumulatively, we have now sold or exited around 2% of revenues with a margin of 3%.

We have received approximately £100 million of net proceeds overall, and we booked a £12 million net gain on the sale and closure of businesses disposed during the half. I've summarised on the slide the disposals and exits that completed so far, so you can update your models accordingly.

Just a quick recap on our capital allocation priorities, we always focus on investing in the business, and this is through both CapEx and complementary M&A. During the half, our CapEx was 3.3% of revenue, as we continued to invest in the good opportunities we see in the business. As you've just seen, in the first half, we invested £370 million on M&A, and there remains a healthy pipeline of opportunities available to us. We remain committed to our leverage target of one and a half times, and we'll update the market at the full year, taking into account the timing of any acquisitions or disposals.

And so in conclusion, we're very pleased with the first half. The business performed very well, and we continued to grow organic revenue strongly, have industry-leading margins, invest in the business and grow dividends in line with constant currency EPS, all creating significant and sustainable shareholder value. Now, over to Dominic.

Dominic Blakemore

Group Chief Executive Officer

Thanks, Palmer, and I think you'll agree, a good set of results. I'm really pleased with our organic revenue growth in the first half. We continued to see good new business wins across the Group, with no changes in the sources of this growth. Retention remains strong at 95%, and our like-for-like revenues reflect pricing, and volume growth helped by the sports and leisure calendar and the timing of Easter. Now, I'd like to look at the regions, the performance of each of the regions in turn.

We had another excellent half year in North America. Revenues were up 7.9%, with broad-based, balanced growth across all sectors, and again, the sources of our new business wins remain broadly consistent, with approximately 40% coming from first-time outsourcing and the remainder split between the large global players and local competitors. Our margins remain high at 8.6% and our profits grew 9.4%.

We continued to make progress in identifying efficiencies and passing through pricing to offset labour inflation. We also acquired several attractive bolt-ons, which will further strengthen our business.

In Europe, I'm pleased to say it's a more balanced picture today than it has been in recent years. Eighteen out of our 22 countries were in growth, the UK delivered double-digit growth, and that performance was driven by good new business wins in all sectors, but most notably the defence contracts and the benefits of the expansion at Twickenham we mentioned at quarter one.

On the continent, the good performance seen in the second half of 2018 has continued, and the region grew 2.4% in the first half. In particular, our Nordics and Benelux businesses did well, and trends in retention across the region have been improving over the last 12 months. It should be noted that we're now lacking the exceptional growth we've seen in the UK, and so we expect that half two growth for Europe will moderate. Our profit in Europe declined by 2.5%. As we expected, mobilisation costs were higher, given this very strong new business growth, and these particular contracts are between five and 20 years in duration, so they'll make a contribution to Europe margin as they mature.

We've continued to make good progress with efficiencies and pricing to offset inflation and to mitigate some of the volume weakness we continue to see in the UK and in certain other European markets. The margin performance was also partially offset by the benefits of our portfolio management.

Performance in the rest of world continues to improve. Organic revenue growth was 3.2%. Excluding our offshore and remote sector, rest of world grew by 5%. That improvement was driven by developing markets like Turkey, India and Spanish-speaking Latin America.

Our offshore and remote business remains a drag, but that headwind is reducing, particularly as we near the end of the construction to production transition in Australia. And we've also benefitted from the ramp up of volumes we've seen in Kazakhstan. Margins remain constant at 6.7% as we continue to drive efficiencies throughout the region.

So moving now on to strategy, I'd like to update you on our priorities to drive our performance in the future. But first, it's worth reminding ourselves what a strong business we are today. Over the years, we've built significant competitive advantages. These advantages allow us to exploit the structural growth opportunity in our industry, with a global leader with just a 10% market share. We're incredibly proud of our leadership position, but we're not complacent. We're putting an intense focus on maintaining that leadership position and capitalising on the attractive future growth opportunities.

As you know, the food service market is evolving. We see trends ranging from organic and locally sourced produce and topically, the desire for convenience. We have been evolving and will continue to evolve with this changing environment. These changes in the market are important, but so are, we haven't yet seen any significant impact from one particular trend, and in fact, as is often the way, we think they offer us fantastic opportunities.

Our global scale allows us to identify these market changes and to innovate accordingly. I'd like to show you how we're doing that. We have a number of teams focussed on innovation. We've already created the Envision Group. They're a team of experts in North America who identify and respond to emerging trends, test various programs and, if successful, roll them out across the region. We also realised the importance of technological and digital change. Compass Digital Labs, or CDL, drives our tech development in North America, as well as innovating on our core programs, such as the cashier-less concepts, they're also piloting new technologies.

And then there's E15, which is our team of data scientists, who are predicting trends and helping to develop solutions to fit the needs of our clients and consumers across all of our sectors. But our focus on innovation isn't only in North America. Digital innovations are being adopted in a number of our countries. These innovations are usually implemented locally in the most cost-effective and relevant way for each market.

But we're also making the right investments into people, systems and processes. Our goal is to make sure we capture the opportunities across the business in the longer term. We'll do that by executing on our strategy. You'll recognise our three strategic priorities of performance, people and purpose. I believe that being a business with a dedicated and motivated workforce and a clear social purpose will lead to higher-quality, more sustainable growth over the longer term.

So let's have a look at performance first. Our management and performance, or MAP, framework, remains the foundation of Compass's performance. You'll recognise our key areas of focus. We refer to them internally as our three little Ps, pricing, purchasing and productivity. I'm really pleased at the progress we're making at codifying and sharing these best practices across the Group, and we're now adopting a more proactive approach to identifying and investing in products and services, in particular to enhance the consumer experience. And increasingly, these initiatives are supported through digital and technologies, to either drive revenues in MAPs 1 and 2, or to deliver efficiencies in MAPs 3, 4 and 5.

So I'll give you examples of where technology is supporting our delivery of efficiencies or contributing to growth. A priority for us cashier-less and cashless payment options. We already use about 13,000 of these solutions across the Group. This technology provides a better consumer experience by improving speed of service and also by driving efficiencies and reducing the risks from cash handling.

Some of our countries are taking the lead in developing next-generation tools. For example, in France, we started using smart checkout. This award-winning concept uses camera-based technology and artificial intelligence to recognise the precise dishes on the tray, map them to the EPOS system and price them for the consumer. Smart checkout also has the potential to increase consumer sales by promoting complementary products such as beverages or desserts, tailored to the individual consumer's buying habits.

These types of developments are also really attractive to a lot of our clients, supporting retention and driving new business wins. I mentioned earlier the consumer demand for convenience. Unattended markets in particular are exploding in popularity and have opened up new opportunities for Compass to serve consumers we previously couldn't access. Some of our vending markets charge the consumer's card or app directly by recognising which products have been removed using self-weighing technology. These 24/7 concepts offer more variety and convenience to the end consumer while being cost effective for us.

In the US, Canteen, our vending business, is one of the fastest-growing sub-segments in the North American division, and we're also exploring the potential for other markets. Continue on the theme of consumer convenience and quality experience, we developed a range of mobile apps across the Group. For example, again in North America, we have the Thrive app in B&I, Boost in higher ed and Nourish in healthcare. They all provide flexible pickup times, location recommendations, payment options or a place to keep an eye on your calorie intake, so you can preorder, prepay and collect. Overall, we currently use these three platforms across over 200 sites in North America, with nearly 120,000 users.

In France, we have FOODI, which as well as providing payment management options can deliver personalised recommendations, organisation event catering or offer a meal to take home after work. FOODI is currently used across 100 restaurants, with plans to roll it out across another 350 sites in France.

And finally, we have FoodBook, which is used by our top five clients in India. It's been in place now for almost three years and is used across 110 restaurants by more than 75,000 consumers, with 90,000 daily transactions. FoodBook offers a variety of channels, such as the mobile app, web and self-service kiosks, along with different payment options. These options again allow us to deliver an excellent consumer experience, and they also provide us with valuable data.

We're also adopting technology in digital to enhance our labour productivity. We're redesigning our workforce management processes using more dynamic tools. These tools allow for better data at the unit level, better benchmarking across sectors and more consistency in our performance. We're increasingly using digital recruitment tools that allow us to advertise roles, interview candidates and onboard people much more quickly and cost effectively. We think digital tools are also better for our people, providing them with the flexibility to take on additional shifts or to better manage their own personal schedules.

And lastly, we've a smartphone app, which makes communication and knowledge sharing with our consumer-facing employees easier. By increasing staff engagements, education, collaboration and of course recognition, we can drive consumer sales and increase productivity, which brings me neatly onto our second strategic priority, our people.

Our people are critical to us. We now employ 600,000 people worldwide. We're developing career paths and providing flexibility for people who want to work in different jobs, across different sectors, functions or even countries, helping them build careers, and not just jobs. This approach really helps to improve employee retention. Our business has exceptional leaders. Two-thirds of our leadership team are now internally appointed. That gives us the benefits of real continuity and a quicker transfer of knowledge around our business.

And finally, we're proud of our gender diversity. We now have 36% female representation on both the Group Board and on my Executive Committee, and our female representation in senior leadership is 30%. But we recognise we still have a lot more to do on diversity more generally.

A lot of our efforts into launching the people strategy has focussed on the unit manager. Our unit managers are absolutely critical to the success of our business. They set the tone for the unit, hire people, buy food, are responsible for health and safety and deal with hundreds of daily operational issues. We want to make our unit managers' life easier by reducing their administrative burden. That way, they can focus more on our clients, our consumers and our own employees. After completing successful pilots in our two largest markets, we're now rolling out a development programme to all of our unit managers globally. That's 40,000 people in over 40 countries.

And lastly, the third pillar of our strategy, purpose. Every business has a social impact, and we believe that leading with purpose is the way to fulfil the true potential of our organisation. Over the last few months, we've been focussing on our three strategic pillars of health and wellbeing, environmental game changers and better for the world. All three pillars are underpinned by a safety culture, one of caring for our people, our consumers and our communities. And in health and wellbeing, for example, we're making real progress with initiatives around mental health with our remote workforce in countries such as Australia. And under environmental game changers, we're making real progress again on food waste.

Three years ago, Compass USA launched Stop Food Waste Day. This year, on 24 April, thousands of Compass employees participated across 37 countries. We aim to raise awareness of the global issue of food waste amongst our employees, clients and broader society. On that day, we were able to touch over 100 million people through social media about this issue. But it isn't just about awareness, and we continue to explore the most effective and practical ways to measure waste through various food waste management systems.

Here in the UK, we're trialling technology which will allow us to more accurately record and therefore reduce our waste. We're making good progress, but again, we know there's further to go. So I'm really happy with how our three-piece strategy is progressing. We're investing in the business for the future, we're building on our competitive advantages, and that'll allow us to capitalise on the structural growth opportunity we have in our industry. And I believe our strategy will ensure that we deliver better quality, sustainable long-term growth.

So to conclude, the Compass business is in very good shape. I'm pleased with our first-half performance, which delivered very strong growth and a consistent margin. Implementation of our three-piece strategy is progressing well, and our financial model remains unchanged. For the full year, we now expect to deliver a performance similar to 2018, with organic growth above the middle of our 4% to 6% range and modest margin improvement.

Palmer and I are now happy to take your questions. Thank you.

Q&A Session

Jared Castle - UBS

Thank you. It's Jarrod Castle from UBS. Three if I may. Firstly, I guess there's an implication that there's a bit of a slowdown in 2H compared to the good performance in 1H. Is this just geopolitics and comps? I think you've highlighted Europe. Secondly, just slide 22, which looks at underlying market of £200 billion, I think you've shown the slide before and it seems pretty fixed at about £200 billion. Is the market growing itself rather than just the opportunity? And then just talking about the apps and take-up there, when you rolled them out, what per cent, would you say, of your clients - what's the take-up I guess with the market that you're serving in each individual clients, thanks.

Dominic Blakemore

I'll take the question on growth. Palmer, you do the market question, and then I'll come back on the apps. First of all, in terms of the [Half 2], I think we've seen very, very strong growth in the first half. That's been supported by a little bit of Easter, a little bit of sports and leisure calendar, and of course the very strong growth we've seen in the UK in the defence sector, so it's probably more like an underlying 6%. I think we're signalling more like an underlying 5% in the second half, which is in the middle of our range. I think it's just the froth of some of those bigger deals coming off, but we're still very strongly positioned within our growth range. Palmer, do you want to do the market?

Palmer Brown

Yes. The market size piece, fair point. We do think there's on-going growth both in line with just GDP growth, as well as new businesses that are appearing, so for instance, in North America, we've been the beneficiary of a lot of new businesses that start up out of nowhere and give us the food service business there. That's not been reflective in the £200 billion that you've seen before. That's been a nice source of growth for us, so we do think the market's increasing. I think the overall point is that still half the market is self-operated and a large chunk in the hands of small and local players, so that plays right into the secular growth opportunity.

Dominic Blakemore

I'd just add, we've grown with a CAGR of 5% with the marketplace looking pretty much the same, haven't we? So I think it remains a great, great opportunity, and likewise for the smaller players to grow into too, which we think is exciting.

In terms of the take-up of apps, you've heard from me today - you have to remember that we are a very decentralised and differentiated business and we need to be bespoke for our clients, so there will always be a challenge on how much you can scale these apps up consistently. What we're seeking to do is have back-office systems or the engines which are 80% consistent and then tailor the front end to our sector and our clients and consumer.

There are some challenges in getting them rolled out, but there's lots and lots of opportunity, and I think we're very pleasantly surprised with how fast that's happening. I think you've seen the numbers today. I think there are some significant numbers of consumers that are communicating and using the apps that we've put out. There we go. Jamie, you've got - you've nicked the mic.

Jamie Rollo - Morgan Stanley

I have, sorry. Jamie Rollo from Morgan Stanley. Three questions again, please. First, Group margins were flat in the first half. What were they, excluding the benefit of the disposals? It looks like that's about 10 basis point annualised benefit. Secondly, on Europe margins, I know you don't want to focus on margins, but first half last year, they were down 80, and some of that weakness was put down the snow, and this year, you're talking about mobilising costs, and it seems a bit of a theme here with your two biggest competitors talking about lower margins on their recent contract wins? So is it just one-off because it was such a big contract win in the UK, or is there something else going on, please?

And finally, the statement talks about selling or exiting 2% of Group sales, so I'm just wondering, is there any of that £500 million of revenue which is actually contract exits which is not included in your organic sales number? Thank you.

Dominic Blakemore

I think those questions are largely for you, Palmer.

Palmer Brown

That's fine. Happy to take them. On the margin points, I think there's a large overlap between the Group and the European margins. When you look at it, we have a lot of moving pieces there. We do have the benefit from the M&A activity, as you mentioned. That's around 10 basis points. We do have a bit of FX that's at play there as well. On the minus side, we do have some underlying pressure there, largely from the mobilisation costs. We also had the investment in the central overheads to support the strategic execution that we mentioned.

The tune of those was in the realm of - excuse me, around 10 basis points to the negative. Just to give you - just to frame the mobilisation costs, that pops up in most all contracts, but some are more significant than others. For instance, in the UK Hestia contract wins, those contracts cover over 220 sites, 1300 trading outlets, 5000 employees, 14 million meals annually. That's a significant ramp up for that type of contract. Now, that's going to be more on the heavy side, but that gives you a flavour to what's involved in some of these.

I would highlight more so on the European front, we are seeing some volume weakness in certain areas. In the UK, the volume weakness continues. We're seeing certain pockets of Europe, France and Germany, mostly it's really kicked in in the second quarter. We are keeping an eye on that, so that's a bit of a drag for the European margin as well. But the biggest piece is the mobilisation costs.

Your point on the sale and exits, most all of what we're doing is sale. There've been a couple small sites, for instance, laundry locations, where we've just - we've exited, but it's very small potatoes there.

Dominic Blakemore

I'd just like to add a couple of comments to that. I think importantly the growth we've seen in the UK and also in Europe is backed by some long-term contracts, so the life of these contracts is between - you heard me say this morning, seven and 20 years. What we've learned is that over time, you have a great opportunity to build the margin up of that business, and it's better to be in that business than not, even if it has a significant cost of mobilisation. That's a clear choice we take, and I think it brings me on to my broader point, which is that the growth remains our number-one priority. So whilst we see margin opportunities, I think it's really important that we don't sacrifice growth for margin. I think it's implicit in the model that we've communicated to you, but I think we're now being more explicit that we think the best for this business and its long-term health is sustainable organic revenue growth.

Vicki?

Vicki Stern - Barclays

Morning, yeah, it's Vicki Stern from Barclays. Just firstly coming back on the volume weakness in Europe. Could you just give a bit more detail on both the UK and Europe as to what you think is driving that? Is that macro, is it short term, is there anything structural, are there any obvious segments where you're seeing it more than others? Second question, just around some of the investments you talked about, anything you can do to size it in terms of how much, how big that investment may be, be it OpEx or CapEx. And then I guess the likely return, to what extent is it more defensive or offensive on the apps and the cashier-less, et cetera?

And then just sticking with that finally, you gave some quite helpful numbers on I think slide 29 talking about the rollout of the app, but just globally, how penetrated are you on some of that key tech, and when do you think you'll have reached full penetration on the markets where it's relevant? Thanks.

Dominic Blakemore

I'll take the first one, and then you can pick up on the overheads and CapEx, Palmer. So just in terms of the volume weakness in Europe and specifically we call out at this point UK and France. I think UK is a similar theme to the one that we first communicated in Q3 of last year. So it's around consumer volume weakness in particular subsectors of the UK business. I think we're seeing it more broadly on the High Street anyway. We're not immune to that, and it can be 5%, 6% negative in absolute volume pre-pricing within certain of our sites, so that is a headwind that we're having to contend with, and as we've said, we've taken actions to mitigate.

In France, I think we've seen a bit of an impact from the political environment there, particularly over weekends where there have been demonstrations. We've seen lower footfall on Fridays and Mondays, which we think is directly correlated. As we go into the second half, look, we'd hope to be lapping some of those negatives in the UK and see them lessening, but I think it's fair to call those out and we're taking the actions that we think are appropriate.

In terms of the apps rollout, I haven't got a number in terms of penetration. I think what's exciting is it's just a really long way to go for us here, and I think what's great, as we've shown you today, it's not just in our most advanced and leading business, the US. It's also in France. We've got it in the UK. We've got it in start-up markets, emerging markets like India and Turkey as well. So I think there's a vast opportunity, and we're very thoughtful about how we invest in the centre so we can pull the best of what we do and push it out into those markets which may not have the scale or overhead leverage to be able to develop it for themselves. We think it's a really exciting opportunity, and again, something that our business model means that we're uniquely placed to benefit from.

Palmer Brown

In terms of the cost relating to the technology and the returns there, there are some costs, but they're not significant, they're not material. We've been investing in this area for a few years now. You heard Dominic reference a few of the apps or technology that started a couple years back, a few years or so in India. So that's been happening for a while. It's not material. It is a bit front-end loaded with some R&D. Deployment is complicated, but it's not significant cost. Another thing to point out is that we are partnering with others, so we're taking advantage of their technology, leveraging our scale as a benefit to them while we get the benefit of their technology. So that has the cost benefit to us as well.

We do see the benefits in a few areas. It's becoming more table stakes, if you will, with respect to consumers. They expect us to have these kind of solutions for us. Clients really like them as well, so it's really helped us in sales and retention, and then it's helped with some of our productivity initiatives, so it's helped our MAP 4 area as well, so we do see the benefits across the P&L.

James Ainley - Citi

Thanks. It's James Ainley from Citi. Just a couple of follow-ups, please. Could you quantify that volume decline you're seeing in Europe, please, and then maybe contrast it with what you're seeing in terms of volumes in North America? And then secondly, back on European margins, is it fair to assume that those margins rebound in the second half as growth slows, as you indicated, and do you think that would be enough to leave the European margin flat year on year?

Dominic Blakemore

Take those? Well, I'll do in terms of volumes, look, I think what's important to clarify is that the negative volume impact is within particular sectors and subsectors, so it's not broad across all sectors of a particular country. So the numbers that I quoted would be, for example, within our parts of our restaurant associates business, parts of our B&I business in the UK and likewise in France. So the impact overall is probably that our volumes in B&I, let's say, in Europe would be a touch negative, whereas we're seeing them perhaps a point positive in North America. I think that's the delta that we see between the two regions.

Palmer Brown

On the European margin, in the second half, we do expect it to improve relative to the first half. However, we do also expect it to be negative for the full year. So not quite as significant as the first half, but still negative for the full year.

Richard Clarke - Bernstein

Good morning. Richard Clarke from Bernstein. A couple of questions from me, one on M&A. Maybe if you can just qualitatively say what you've bought and what's in the pipeline, what are you looking to buy, and then quantitatively, what impact has it had? I think if I do my numbers right, it looks like it's added about 50, 60 basis points in organic growth, but what impact has the M&A had on margin? Then also on the UK, also coming back to Europe, last year, you had a big margin decline. I think you mentioned 150 basis points and some delayed initiatives to offset that. Maybe you can give an update on UK margins. Are you seeing some of those cost-saving initiatives take hold this year?

Dominic Blakemore

I'll talk to the qualitative aspects of M&A, and then Palmer can pick up on numbers in the UK. Specifically, we've got a good pipeline of opportunity. We're nearly at £400 million of acquisitions in the first half, which is a stronger run rate than we've had in recent years. At this point, most of those deals are in the US. They continue to be about 50-50 GPO procurement-type businesses, where we're adding to our scale in food buy and creating new channels of third-party volume, which we're really excited about, and then the balance has been within our Canteen vending and office coffee services, where we're seeking to create greater scale and greater geographic coverage in particular, which means that our national clients can get served with consistency and quality.

We continue to see a good pipeline as we look forward. I think the extra focus on food is really helping us. I think we're identifying some really good food assets across the US but also Europe and the UK, and I think you should expect to see us doing some deals there, but they'll continue to be bolt on and they'll continue to be the manner that you've seen us do before.

Palmer Brown

In terms of the margins in Europe and the UK, I think it's, again, largely consistent with what I had said earlier. Mobilisation costs are quite high in both areas. The Hestia contract I gave you an example of was obviously in the UK. That's had an impact of about 70 basis points on margins within Europe. We do have the M&A benefit, the BSG business we sold. We've got a bit of a tailwind to margins there.

The volume declines have had a drag on margins, particularly in the UK B&I business. So overall, it's a bit of a mixed bag, if you will. We do expect that to improve as we look ahead to the second half and going forward. I think some of the contract wins that we've cited, again, we're hitting the mobilisation costs now. We're in a ramp-up phase that will have significant benefits as we look forward. So we expect a bit of a stabilisation, but again, overall in Europe, we expect it to be negative for the year.

Richard Clarke - Bernstein

Maybe just quantitatively on the M&A spend, what's been the boost to revenue, I guess fairly small, the GPO [star] businesses and any impact that's had on Group or North American margin?

Palmer Brown

The M&A spend for the year is around £130 million annualised revenues. That happened largely in the second quarter, so you're not seeing much benefit in terms of revenues or impact overall in the first half there. We do expect to see an above-average margin from the M&A. That's largely been in North America, so as we look forward, we're excited about the businesses we bought. We've got to do some work to get them integrated and up to speed, but we're excited about those, and those have been, as Dominic mentioned, vending, OCS, micro-market, food buy related, consistent with what we've done in the past.

Dominic Blakemore

Obviously, it'll take us a bit of time and a bit of cost to integrate, so that has an effect in the early months or first year of ownership, too.

Kean Marden - Jefferies

Good morning. It's Kean Marden from Jefferies. Just first of all, would you be able to share your views on the contribution to Group organic revenue growth from price during the period, and then whatever assessments you have of food and labour cost inflation during that period.

And then secondly, just continuing the point on non-core assets, the US assets and the rest of the world assets that you've flagged as assets [for sale] - held for sale, can you give us an indication of what sort of revenue is tied up with those that you expect to divest over the next six to 12 months?

Dominic Blakemore

They're all for you.

Palmer Brown

That's fine. Take them all. Overall, like-for-likes are just shy of 3% or so. The majority of that's going to be in price that you see. The inflation that we're seeing, we're still seeing significant labour inflation, most notably in the UK, in the US. That's north of 4%. The food inflation, there's been a little bit of tick up in the UK. In North America, it's still relatively benign on the food front. In terms of the disposal programme, I think we've said we are reviewing up to 5% of revenues. That doesn't necessarily mean that we will dispose of 5% of revenues, so just to clarify that, if you will. We have exited businesses with about £500 million of revenues thus far.

This will continue into fiscal '20, so it's not something that will be fully complete this fiscal year. It will carry over a bit into fiscal '20. It's hard to quantify the exact amount or the timing of it for you at this point. It's a bit lumpy and unpredictable. I think the best thing that we can do is just to flag it for you when it comes.

Kean Marden - Jefferies

I suppose the thought on that was does this wave include some of your higher-margin, better-quality assets?

Palmer Brown

Yes, the overall take on margin with this disposal programme is that it will be margin neutral. So thus far, we've started with below-average margin. The businesses we're looking at and in some processes in some cases are above average margin, so we do have that to deal with going forward. It will be reflective in valuations and in our overall trading, but we expect it to have a neutral impact as we look at it in the round.

Dominic Blakemore

Any more questions from the floor? Any questions on the line? Very good, in which case, thank you all very much for attending and we'll see you at the Q3 and we'll speak to you at the Q3 trading update. Thanks. Bye.

[End]