Company: **The Compass Group Holdings PLC**

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Operator: Good day and welcome to the Compass Group PLC third quarter trading update. Today's conference is being recorded. Hosting today's call will be Dominic Blakemore, Chief Executive Officer, and Karen Witts, Chief Financial Officer. Following their brief opening remarks, you will have the opportunity to ask questions by pressing star one on your telephone. I will now turn the call over to Dominic Blakemore. Please go ahead.

Dominic Blakemore: Thank you, Emma. Good morning, ladies and gentlemen. Thank you for dialing in. As usual, I'm joined by Karen Witts, our CFO. I'm sure you've read this morning's statement. I'd like to say a few words on our performance before opening the call to questions. Throughout the pandemic, our priority has been the health and safety or our – of our employees and consumers, and we continue to manage the business to protect the interests of all of our stakeholders, including our people and the communities in which we operate. Our business started to slowly reopen towards the end of the quarter and, by the end of June, about 60% of our business was open, compared to 55% by the end of May. Our sites are reopening with best-in-class health and safety protocols, and we're actively entering into contract renegotiations with our clients to recover the costs of operating safely and with lower attendance levels.

At the same time, we're adjusting our business to the new trading environment and, in the third quarter, spent £42 million in resizing costs in North and South America. Encouragingly, the group's operating margin improved within the quarter, and the drop-through improved further to 20% in June. Looking at our regions, our overall business in North America has been slightly more open during the quarter. Sites reopening and constructive conversations with clients to recover higher operating costs, combined with more flexible labor law, has allowed us to adjust our cost structure and start to rebuild the operating margin. In Europe, the lockdown measures in our major markets have been deeper and more widespread than in other regions. We're starting to see a small number of sites reopening, and we're also working with our clients to pass through higher operating costs. However, a greater weighting towards business and industry, stricter containment measures and a less flexible workforce mean that while we are vigorously managing the situation, progress in the region will inevitably be slower. In Rest of World, most of our business was open at the end of June. This is mainly due to our higher exposure to offshore and remote, which has not been significantly impacted by lockdowns. The operating margin was slightly positive as a result of the good performance in offshore and remote in Asia Pacific, combined with swift labor cost actions in South America.

And so, to conclude, we're encouraged by the relative improvements in performance in June and the early signs of an acceleration in first-time outsourcing opportunities. However, the pace at which our volumes will recover is still unclear, especially given a possible increase in local lockdowns. In the meantime, we're proactively managing the business, reducing our costs and rebuilding our margins. Our focus on operational execution, our scale and our strengthened balance sheet will enable us to succeed in this new environment and further consolidate our position as the industry leader in food services. We remain excited about the significant structural market growth opportunity globally and the return to organic revenue growth, margin improvement and return to the shareholders over time.

Before we take your questions, I'd like to bring to your attention our reporting calendar. Given these extraordinary circumstances this year, we will issue a pre-close trading update on 30th September, followed by our full-year results on 24th November. Thank you, and now we'll take your questions.

Operator: Thank you. As a reminder, ladies and gentlemen, to ask a question, please signal by pressing star one. We'll take our first question from Jamie Rollo from Morgan Stanley. Please go ahead

Jamie Rollo: Thanks. Morning, everyone. Three questions, please. Just on the top line, it looks like June was around sort of 37% down or so, which is quite a lot better – ten points better – than April and May, and obviously better than your down 50 slow recovery scenario. I appreciate you're not giving guidance, but is there any feeling you can give as to whether that piece of recovery can continue? Maybe you could reference some of the July data and the impact of some of the recent lockdowns.

Second question's just on the drop-through – 23% in the quarter, so it's better than your guidance. Could you please quantify the various sort of government and other sort of furlough schemes of benefit in the quarter, maybe in sort of, you know, millions of pounds benefit, and how sustainable the June number of 20% can be as those schemes are winding down, and what sort of exceptionals we should expect to generate the cost reduction needed to sort of continue that low flow through?

And the final one just on business wins. It all sounds very encouraging. If you could maybe talk around the pipeline and whether you actually expect net gains to accelerate at some point. Thank you.

Dominic Blakemore: Thank you, Jamie. Three questions, but lots of sub-parts, so thank you for that. We'll take those in reverse order, if I may, and I'll deal with the first two and then pass to Karen to talk about the pace of recovery in the quarter and they year.

So, first of all, just looking at business wins, you'll see in the statement we've talked to a 95% retention rate in the quarter, which is slightly positive to our long run average retention rate, which we're clearly pleased with. Inevitably that is in part due to processes that have been put on hold, but I think more importantly it's been a response to what we're calling a flight to trust. We've seen a number of our clients extend contracts with us, a number of our clients complete retention processes without them becoming competitive. And we think that that is a feature that we will benefit from as we look forward. And that flight to trust is about financial strength, as well as the appropriate hygiene, health and safety protocols that we can bring to our clients. The pipeline remains strong, and in fact, in North America, it's looking like we'll have our strongest ever year of new business wins. And, you know, therefore, yes, when it comes to net new business, we would like to think that we should see some form of acceleration over time. We've also got a number of inquiries coming in around first-time outsourcing, particularly in the healthcare and aged care sector, and especially again in North America. So I think all those opportunities which we talked about for better retention and acceleration and first-time outsourcing and the opportunity to take share are all very well.

When it comes to drop-through, I think we're keen to move away from the concept of drop-through after this quarterly statement. I think what's much more important for us now is the margin progression that we make. And clearly you've seen in the quarter we have a minus 6% margin in the quarter, which is minus 5% before restructuring. We've improved to minus 3% in June, and clearly our intention, whilst we can't control volume, is to do everything we possibly can to improve that margin as we go forwards. And therefore, you know, the 20% drop-through is better than the range that we guided to, and we're very, very pleased with that progress. What's critical for us now is how quickly we can move towards breakeven and beyond through the actions that we want to take on contract renegotiations and adjusting or rightsizing the business to the new volume environment.

So that brings me on to the question on government furlough. In the round globally, we've probably benefited around £90 million a month through quarter three from government programs. That nearly halves per month in run rate in quarter four and will diminish significantly beyond that. And therefore, you know, our ability to manage margin will be the pace at which we can resize the business in line with those programs coming off and the pace at which volume recovers. And therefore we've signaled today that we are and will continue to resize the business accordingly.

What that meant today is you've seen a £42 million restructuring charge, principally in North and South America, with a six-month payback. We will continue to resize the businesses as those programs run off, and in the absence of volume recovery, we'll need to take the necessary actions. And, of course, much of those programs are in the UK and Europe, and therefore you should expect to see any restructuring there coming later in the process, but we will update at each quarter as we go on the costs incurred and the payback.

Over to Karen for the volume recovery pace.

Karen Witts: Yes, Jamie. Just in terms of that, we saw through the quarter our organic revenue was down 44%. And, as we've been giving our regular updates, we said that the position in April and May was actually similar. And, as you say, we saw an improvement in June where the organic revenue decline was less than 40%, and that was really as a result of some of the constraints being lifted across the geographies [inaudible] particularly reference, you know, Europe as being sort of closed to us. And constraints started to be lifted by the end of – the mid to end of May, hence the better figure in June. As we sit here towards the end of July, we think that July is looking pretty much like June. August, for most of our geography, is a kind of month of vacation, so we are assuming that August is more than likely to look similar to July. And then we will need to wait and see what happens in September. September will be an important month. We will need to see what happens when the schools and the higher education institutions go back and, indeed, what the student behaviors are like once they go back to their schools and universities. And then we also need to see the pace of returning to work in the B&I sector. And, you know, there's been lots of news coverage recently about who is going back when, with some organizations pushing back their expectations a bit. So September will be important, and that's one of the reasons why we're going to update again at the end of September.

Dominic Blakemore: Very good. Thank you, Jamie.

Jamie Rollo: Okay. Thanks a lot.

Operator: Thank you. We'll go to our next question now, from Jarrod Castle from UBS.

Jarrod Castle: Thank you. Good morning. I'll limit it also to three. I'm wondering if you can give any color in terms of FM versus catering, both in terms of growth and margin. Secondly, just any update on what's going on with procurement and the ability to hold onto discounts that you receive for volume. And then, just lastly, you've paid back the UK government CCFF. Can you just give a bit of color, you know, why now, and perhaps, you know, was this in your thinking when you raised the equity, and perhaps could you have raised less equity if you hadn't paid it back? Thanks.

Dominic Blakemore: Jarrod, thank you. Why don't I take those first two, and then I'll hand over to Karen for the third. First of all, just on the color of FM versus food services on revenue and on margin, I mean, obviously I think you have to bear in mind that, where we operate support services, we do it alongside food, typically in the healthcare sector and within the defense, offshore and remote sector. Those particular sectors have held up well. I think, from a revenue standpoint, the catering volumes in both have been affected by lower footfall in the retail aspects of those sectors. And within healthcare, we've obviously seen lower elective surgery volumes, which means there are less patients and less visitors within the hospital environment as well. And that has clearly had an impact on the catering volumes.

When it comes to the support service volumes in both of those sectors, they've been robust to positive. Obviously, the importance of hygiene provision in that environment has been significant, and therefore we've seen greater demand and greater volume. And typically the margins in those sectors have clearly benefited from the hygiene services, and they suffered from the loss of the retail. But, in the round, those sectors remain a significant contributor of profit to the group, albeit slightly below in margin terms where they've been historically.

When it comes to procurement, yeah, I mean, I think it's – if you look at the scale of food volume decline that we've suffered, it is significant, and therefore you would expect there to have been an impact on our procurement synergies. And of course they are flowing through the drop-through, and they're also flowing through the operating margin at the sectors that continue to operate at some scale. What we've done to offset that is we've simplified menus, which means we're putting greater volumes through fewer SKUs and fewer suppliers. We've also, in many instances, managed to maintain our current pricing or past pricing with our suppliers, and we'll continue to do so in anticipation of recovery over time. And I think the other important thing is, you know, our purchasing model has always given us relative benefit against competitors and self-op. That relative benefit, whilst reducing in absolute terms, remains exactly the same proportionately, as it were, and therefore we believe will always give us competitive advantage in new business. And of course it's why we seeking to recover those [inaudible] through our commercial contract renegotiations with the clients. And so I think it's a – it's a mixture of factors and, like everything else, I believe we're trying to manage the situation as best we can within our own control.

And then over to Karen just on the CCFF.

Karen Witts: On the CCFF. Yeah, so we did repay the CCFF charge. If you think about that order in which we did things, it was one of our very early actions. I believe we were one of the first organizations to access the CCFF, and we repaid it in order to reduce our interest costs. So, to some extent, the equity raise meant that we did have more liquidity in place, and we didn't want to incur the interest costs, but on the question of the equity raise, then, you know, when you think about the cash burn, at a headline level it is much lower than expected. However, that really was largely a function of timing differences, tax deferrals, and then the acceleration of receivables in an environment where we said cash flow would be lumpy. We still expect significant cash demands on the business. We've just started to speak about restructuring costs, and we want to be able to invest for growth through CAPEX, and then later on through M&A where appropriate. So we are very comfortable with the – with the actions that we've taken.

Dominic Blakemore: And, of course, just to add one point to that answer, Jarrod, of course, you know, one aspect of that was to ensure we introduced the resiliency to the balance sheet for any worse conditions, should they arise, be that further local, regional and national lockdowns. And so I think the – you know, the raise is absolutely serving its purpose across those dimensions of cash cost, investment in the business, investment in restructuring and the resiliency that we wanted to introduce.

Jarrod Castle: Okay. Thanks.

Operator: Thank you. We'll now go to our next question, from Richard Clarke from Bernstein.

Richard Clarke: Good morning. Good morning. Three questions from me, if I may. Just a question on the – on the rightsizing costs. What do you – what would you expect your budget to be for that through the next couple of years? And that, alongside your renegotiations with clients – is that enough to ultimately get your margin back to 2019 levels on some sort of full recovery scenario, or is there other components you need to put in?

Second question, just on the nature of the new wins. What sectors are you those in, and is there a higher CAPEX component at all associated with COVID compliance?

And then I know you said in your release that you were in line with a slow recovery scenario, but it looks like your slow recovery scenario was more like down 50%, and you've said you're now kind of below – inside 40%. Given that that's what you stress tested against, does that free any cash up? And if so, what might you be able to spend any money on in the shorter term?

Dominic Blakemore: Thank you, Richard. Again, three very full questions. Firstly when it comes to will our rightsizing renegotiation be sufficient for full recovery – to get back – our margins back to 2019 on full recovery, look, I see no structural impediment to us being able to restore industry-leading margins. I think the question is the period of time over which we can achieve that. As we've said repeatedly, I think there are – there are three levers within our control and one outside. I think the three levers within our control are innovation, the extent to which we can renovate our offer, particularly within those sectors which are most impacted by digital, by remote, by delivering, by social distancing. And so we're working very hard on having options to address that will allow – which will allow us to earn attractive margins at smaller volumes. The second is the ability to right size, and you've clearly seen a start today. We're not going to put a number on it. We think that is unwise at this point. We'd rather update you as we go, because the scale of rightsizing will be dictated by the pace of volume recovery and the strength of the relative economies. And obviously there are some countries which are more expensive than others, and we don't have the ability to forecast that today. But we'll take the right actions, do the right things and report as we go.

The third lever is client renegotiations. And at this point, you know, in some way or another, either in the immediate short term or for the medium term, we've had positive conversations on around 50% of the contracts, which we think is a great start. Some of those conversations will be – will need to happen again for longer periods of time ahead. But I think it shows the willingness of our partner clients to work with us on that. So I think, when you put those together, the – you know, we are doing everything that we can within our control. What's outside our control is the pace of volume recovery, which you heard Karen talk to. You know, if we – if we see volumes restored to 2019 levels, there is no impediment to us recovering margins. It's the pace at which we see those volumes recover. And, you know, I think it's fair to say the sector where we would anticipate there being some more likely long-term difference would be B&I, and therefore I think it would be unwise of us to think we would see B&I recover to 2019 volumes. Our job is to be profitable on lower volumes and to win as much new business within that sector as we can.

When it comes to new wins and higher CAPEX, I mean, at the moment what we're seeing largely is processes closing that started pre COVID, and therefore it is across the piece. A number of those wins require CAPEX. We've been incredibly diligent to ensure new contracts have all the right protections for the new environment, especially, obviously, around volume and pricing at different volume levels to ensure any CAPEX we do deploy has the – has the returns that we've always seen associated with it in the past, in the new environment, and therefore we're working very hard on that. We're not necessarily seeing higher CAPEX. We're seeing CAPEX being deployed in different sectors. So it's becoming a competitive advantage in healthcare in a way that it possibly hasn't been in the past. And obviously we're less minded to investments in higher ed and sports and leisure right now. So we're being very judicious, and we'll continue to be so as we go forward.

And then finally, when you ask about, you know, the volumes, I mean, I would say we've talked about being 50% open and 44% down in the quarter. To me, that's pretty close to the 50% that we talked about in the slow recovery. It may have been slightly better in June, of course, and the walk forward into quarter four remains uncertain. And so, for now, I think we're pretty much in line with what we anticipated. We're pleased we're doing a bit better on drop-through, a bit better on margin and a bit better on cash, and of course that puts us in a better place, but I think we're only three months into something that could be a very long journey for all of us, and I think it's important that we're very judicious and thoughtful in that regard.

Richard Clarke: Thanks very much.

Operator: Thank you. Our next question comes from Jaafar Mestari from Exane BNP Paribas.

Jaafar Mestari: Hi, good morning. Thank you for taking the questions. I've got two, if that's okay. Just following up on cash burn, just wanted to check that a 260 million outflow, and then it's been flattered by 200 million – 220 million of tax deferrals – maybe a bit more with the receivables, but in any case around 500 million underlying outflow looks pretty close to your guidance for 150 to 200. Has this been – per month. Has this been fairly consistent, or has cash burn reduced materially through the quarter? And in particular, when you have a significant improvement in revenue towards the very end, does that help materially? That's my first question.

And then, second question, could you maybe just give us some color on volume trends and client behavior by end market and by client industry within B&I, in particular technology clients, financial services clients? We've seen a few headlines of large US companies planning for work from home to last until next summer. Are you being affected by any individual client decisions there? I'm thinking about Google in the US, for example.

Dominic Blakemore: Yeah. Jaafar, thank you very much for those two questions, I'll take the second first, and then – and then hand back to Karen for the cash burn. Yeah, I mean, if you look at our B&I sector, you're absolutely right. You know, we have to look into the subsectors and the industry lines. I think the first split is between the B and the I. So business – professional services, white collar – is 60% of our business industry. Manufacturing is 40%. What we've seen typically is faster reopening of the industry sector, and higher volumes. And I think those are for the obvious reasons that typically need – people need to be onsite to produce and manufacture, and that has been our sort of consistent experience around the globe. We are seeing that below normal levels by some way. We're also seeing the impact of the economy on a number of those clients already coming through in terms of their own restructuring plans and their own shift patterns. So we are seeing lower volumes on site, which we expect to be a feature for a while as well. But that has certainly come back faster, and, of course, a number of those clients would be out of major city centers, in suburbs. There is less concern around transit to sites, and more people travel by car or independently to those locations. And I think, for all of those reasons, we've worked very closely with our clients to establish appropriate operating protocols. And I think the net positive in all of that is more people are willing to spend time together during the breaks, albeit socially distanced and safely, because of, you know, that moment of social contact. And obviously more people are staying onsite during the breaks because of concerns of a greater risk of infection outside of the sites themselves.

When it comes to the B – the 60% – of course, many of our sites would be located in urban and city centers. There is greater concern around transit into those. They've recovered much more slowly. Clients across all sectors are being, I think, very cautious and careful about the pace at which they bring staff back, especially with regard to their obligations around health and safety for those individuals, and especially with the uncertainty that we see around further spikes more generally. We have obviously, as you quite rightly referenced, seen – seen the likes of Google, who is a significant client of ours in North America, take the decisions we take – they've taken, and we fully support our clients in all of the actions and decisions they take. We're working with all of those clients to see how we can serve them to a more limited extent onsite, and potentially offsite to their employee base. And we fully respect those decisions, but recognize that that, that will weigh on our volumes for longer. And hence the caution that you've heard this morning and the caution that we've injected into all of our planning, because we recognize that that is likely.

We've also seen a little bit of a fistfight, if I might call it that, in a number of clients between – I think, in the first few months of this, everybody thought we could all work very, very effectively from home, and there was an opportunity to address real estate costs and so on. I think as – the longer we go through this, I think we're also recognizing the need for creative collaboration, for social working, the importance that has for training, coaching, development and onboarding. And therefore I'm hearing more clients that are concerned about not being able to bring people back sooner or in the medium term.

So I think we'll see those things both at play, and I think the single most important thing right now is public health and government guidance in every country as to what's appropriate. That will be the limiting factor. And, you know, as that unlocks the potential for people to work, I think we'll then start to see clients making decisions based on how effective is home working and what else do they need to offer their workforce. So we're – you know, we're optimistic in the medium sound that we'll see – we'll see more volumes come back. But clearly, in the short term, we have to be thoughtful about those factors.

Karen?

Karen Witts: And I'll just pick up on the – on the question on cash burn, Jaafar. Thanks for that question. You are absolutely right. We are in fact pretty close to our guidance here. You know, internally we've been telling people not to be seduced by the timing differences. So when you actually – when you actually strip out the fact that we've got these significant tax deferrals – 220 million of tax deferrals, and about the same number of accelerated receivables, then that underlying position is pretty close to what we said it would be. I would like to say that, you know, I'm calling them timing differences, but we have to work really hard to get the tax deferrals and to get the cash collected from the client receivables. The cash burn is a combination of the amount of the business that is open and the drop-through rate. And, you know, yes, we've talked about the fact that both of those things were a bit better in June, so, you know, going forward is going to depend on the speed of the recovery of openings and participation, and our ability to keep that drop-through rate or transferring back into margin progression in line with what we've got here, in an environment where, as Dominic said earlier, we'll start to see the Government support tailing off. So we are going to have to think about how we manage that in terms of our rightsizing, our contract renegotiations and other cost reduction activity. However, again, just to emphasize the point that Dominic made, you know, we – we do have the balance sheet resilience, and we do have the liquidity, you know, to see us through, you know, any bumps in the road that we might – we might find, or any requirement on our cash.

Jaafar Mestari: Thank you very much.

Dominic Blakemore: Thank you.

Operator: Thank you. Our next question comes from Vicki Stern from Barclays.

Vicki Stern: Yeah. morning. A few questions just on delivery. Just an update, please, on how things are going with Feedr, and particularly are you seeing any incremental interest from new clients in that type of offer already? And, related to that, can you just help us understand a little bit – you touched on this earlier with your margin comment, but just what the margins on that delivery model could look like? And then, just how material can that be for you? Is that going to remain niche, or do you actually see that being a core part of the future business, at least for B&I? Thanks.

Dominic Blakemore: Thank you. Thank you, Vicki. So we're actually tackling delivery through a number of different business models in a number of different countries. So we're obviously doing it through the Feedr acquisition in the UK. We've done it through a small acquisition in Asia Pac, and we're also doing it through partnership in a – in a number of other – in another – in a number of other countries. We do think it's important. So why do we think it's important? A couple of reasons. On the one hand, it gives us access to a new business segment in SMEs, where it would be 50 to 100 meals per day, and the scale of enterprise where it wouldn't typically be able to afford onsite catering services. And it means that we can use the technology either to produce in our own – our own kitchens and deliver in, or to partner with other high street restaurants where they would produce, and then we would provide the delivery in to those – to those clients. Separately, whilst we're in an environment of lower volumes, it may be uneconomic for us to operate the kitchens, and therefore it's a – an economic and thoughtful way of us being able to provide great food options into our larger clients whilst their volumes are lower, so it's also proving to be very important in the – in the short term for us.

We think that over time it will become one of the catering options for our large clients. So you'll have potentially desk drop, unattended vending, you'll have a restaurant or canteen that you can visit, and then you can also order through a delivery app, and potentially at scale across a number of the employees at a given site. So we think it's got a lot of potential. You asked how material it's going to be – you know, would it become core. I can see that it will become a core subsector within B&I and will be a service offering, but I think it will be one of many. You know, if you look at what we've already achieved in the US, you know, we have our canteen vending, we have our unattended vending solutions. We've now got FoodWorks, which is effectively a delivered-in solution. I think it becomes one of a number of ways of reaching and meeting our consumer needs. And when it comes to margin, you know, with everything, we have the expectation that, if we're going to enter into something, it will achieve our – at least our average unit margin, and we have no reason to believe that we can't achieve that over time with our delivery offers.

Vicki Stern: Thank you. And, just to follow up on that, the – obviously, you know, arguably a competitive space in terms of delivery. Just the sort of – the relative strength of Compass entering that is the relationships you've already got with the businesses, just to understand sort of the barrier to entry.

Dominic Blakemore: Yeah, I mean, I think – I think there's a – you know, there's a – there's a few reasons here. You know, we have – we have the captive client base and, you know, effectively we can reach them through apps, either for a bespoke service or across a number of services. So I think that's the first – the first opportunity. The second is we already have – I think they're called dark kitchens, but, you know, we already have significant independent kitchens globally. I think we've got 20 in North America, 40 or so in Europe and another 20 across Asia Pac, at which we can produce – you know, typically they've been used for scale production into sectors like healthcare and education. There's no reason they can't be used for batch production of high-quality meal offerings. So I think we have the assets, and I think we're also figuring out that, in the new world post COVID, you know, the assets that we share with our clients can be more fully used and utilized when they're not being utilized with our clients. So I think those are both competitive advantages. I think we're figuring out how to bring the tech in through acquisitions and through self-development. You know, I think the one piece that, you know, we'll have to figure out is the delivery and logistics. And if you think about something like our scale and footprint of the canteen operations in the US, I think we already have a competitive advantage there too. So I think there's a number of reasons why, you know, we should be well placed to make this a success within, you know, the B2B2C environment, as it were, of the workplace.

Vicki Stern: Very helpful. Thanks.

Operator: Thank you. Our next question now comes from James Ainley from Citi.

James Ainley: Yeah. Morning, everybody. Thanks for taking my questions. Most have already been answered. I wonder if you could give us maybe a bit of color around the education segment in the way that you did for B&I, I guess particularly thinking schools more – seem more likely to be mandated to go back, but what are colleges telling you about their plans to return in the autumn?

And then, second question – I think you said earlier that you'd had positive conversations with around 50% of your clients about recovering the kind of costs – the higher costs of the current environment. Is that because you've already spoken to 50%, or is it because – is that because the others were not positive? If you can just clarify that, it'd be helpful. Thanks.

Dominic Blakemore: Sure. Thanks, James. Yeah, just on the education color, I mean, it's a little bit like B&I and like sports and leisure, isn't it? There is, you know, huge uncertainty on what we're going to see in the coming months, and it is different by subsector. And again, I think you have to remember our business is split about 60% higher ed, 40% lower ed, and in the US that's about 80/20. I think we've – we're finding that higher ed, so universities, are more cautious about bringing student groups back to campus. And so we've seen a greater reliance on – in – certainly in our conversations with clients and in their planning, a greater reliance on remote learning, particularly for large-scale group lectures. We understand that tutorials and experiments and all that good stuff in smaller groups will still take place physically, and that a lot of institutions are planning for groups to remain within bubbles. I have to believe, in the short term, that will mean lower volumes on campus for us. And that is absolutely our planning assumption – is one of the things that featured in our slower case – slower recovery case. When it comes to lower ed, I think it's going to be very much about the positions taken by independent governments and public health authorities, and we will obviously respond to that. You know, we are ready, willing and able to operate on all sites, and can do so and can do so profitably, but we need to see the volumes come back. And I think the – you know, the single biggest concern that will be, you know, what happens if we see spikes in the virus within local communities which result in closure at short notice yourself of – of the school systems. So I think, you know, that's a little bit where the jury's out, and, as we've seen with, you know, the quarantine guidance with – with Spain just these last few days, it is very dynamic, isn't it? I think the – the positive there is the sorts of conversations we're seeing about, you know, lunchtime meals for all students being free in the UK, and that potentially in other countries as well. So I think, you know, there may be positives come out of this crisis as well.

And then, finally, we often talk about the independent schools, and I guess one of my thoughts coming into this that we were likely to see lower volume in independents because of potentially recessionary pressures on spend. I think what we're actually saying is potential for oversubscription due to parental concern about digital services, and so that is a sector that, you know, it – should it return, we would be hopefully positive in.

And then, when it comes to the conversations, yeah, you framed the skeptical conversation. We were pleased with the 50% largely because, you know, it's about how many of our clients are open and operating to allow us to have conversations about the reality. So, if you think about it, none of our sports and leisure clients are open, so there's no conversations happening there at all. So, you know, inevitably there are some that will be more difficult, and that's because they're going through their own uncertainties and difficulties, and we will have to work through the consequences of those over time. And this is always going to be a balance between contract negotiation and cost recovery and reduction of cost.

James Ainley: Yeah. Okay. Thank you very much.

Operator: Thank you. We have a question now from Andre Juillard from Deutsche Bank. Andre Juillard, your line is open if you wish to go ahead with your question.

Andre Juillard: Hello, do you hear me?

Operator: And we may have –

Dominic Blakemore: We hear you now, Andre.

Operator: Please go ahead. We hear you.

Andre Juillard: Oh, okay. Sorry. Yeah. Thank you very much for taking my question. Both of them have already been answered, but I wanted to come back on what you are mentioning in your press release about the new outsourcing opportunities which are coming on the market. What are you seeing exactly? Is it a self-managed business which is coming on the market through – for externalization? Are you seeing some regional players being in difficulties and contracts coming on the market? Could you simply give us a little bit more color about what is happening? And, connecting to that, the balance sheet is impressively safe at the moment, with 5 billion available. What are you planning to do with that? Is it simple security? Are you considering some potential M&A in the mid-term and some potential return to shareholders? Thank you.

Dominic Blakemore: Andre, thank you – thank you very much for the question. So when we talk about first-time outsourcing and seeing a positive trend and a number of inward inquiries, that absolutely is in [inaudible]. And, as we said, probably the biggest area of that at the moment is healthcare and aged care in North America, but also in a number of other of our major markets. When it comes to share, I think we've always talked about seeing an opportunity for share. I think, you know, sadly for the industry, there are a number of smaller and medium-sized players who are sector-specific where their level of revenue closure, if they don't have the sector exposure that we have to the likes of healthcare, DOR[?] etc has left them very vulnerable, and we've certainly seen a number of smaller players not choosing to compete in bids, some not being able to open contracts that have been won and therefore we've been able to step in. And I think, you know, that again goes to the – you know, the flight to trust or safety, as it were. And I expect to see that being a potential feature as we look – as we look forward.

And then, when it comes to the balance sheet, look, I mean, our number-one priority is resilience through whatever this virus throws at us over the next 12 months. Our number-two priority is restoring our margin and doing absolutely everything we can to restore industry-leading margins as quickly as we can. And then, look, we always said, after that, once we've navigate those waters, you know, this would then be about investing in the business for the future, because we believe those opportunities will be there, either through first time outsourcing or through potentially troubled competitors. But I think that is some way off, and right now my focus and the focus of this business is sequential improvement in operating margin quarter after quarter after quarter.

Andre Juillard: Okay. Thank you.

Operator: Thank you. Our next question now comes from Leo Carrington from Credit Suisse.

Leo Carrington: Good morning. Thank you. Two questions. The first would be just to maybe follow up on Andre's. More broadly, on potential and new contract development – the larger contracts coming up for re-tender – do you expect a pause in activity, or possibly even extensions of some contracts? And if so, would this be a sort of net slowdown in new contract wins for the – for the next 12 months or so? And then secondly, the trend in the – in the GPO – say, the US GPO – what – what's been the sort of numbers around third-party purchasing? Has this been any more resilient than your business, or maybe worse given the focus on broader hospitality? And if you have any outlook in terms of the recovery that has any impact on the North America margin too.

Dominic Blakemore: Yeah, I mean, just taking the second one first, our third-party book of clients where we operate GPOs typically reflects our own sectorization. So we clearly have significant third-party business through healthcare, in education, as well as in pure hospitality, as it were. So our third-party book is probably slightly more exposed to lockdown than our business, but not hugely so. And then just when it comes to your question on sort of retention and new contracts, you know, look, in part, you're right. We will inevitably see some processes either put on hold or extensions put in place. That will benefit us from a retention. We still see a lot of new business coming to market for the reasons that, you know, we understand – quality of process, quality of service and the stress on our competitors. And so, you know, we believe at this point we're winning on retention and we should still see attractive new business. Some of that new business may be a bit slower in opening and will obviously open at lower volumes, so, in pounds millions terms, it may look less, but in numbers of contracts we believe it will be a net positive for us.

Leo Carrington: Thank you very much. Very helpful.

Operator: Thank you. As we have no further questions, I'd like to turn the conference back over to your presenters today for any additional or closing remarks.

Dominic Blakemore: I'd just like to say thank you all very much for your – your questions this morning, and thank you for dialing in. To the extent that any of you are taking holidays. I very much hope you enjoy them and get some rest over the coming months, and we look forward to updating you again at the end of September.

Operator: Thank you. This will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.