

**Company: The Compass Group Holdings PLC**

**Conference Title: Compass Group PLC Half-Year Results Conference Call**

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Operator: Welcome to the Compass Group PLC half year results Question and Answer session.

Hosting the call is Dominic Blakemore, Chief Executive Officer, and Karen Witts, Chief Financial Officer. In order to ask a question, please press star one. Please be sure to unmute your line before doing so. Today's call is being recorded. At this time I would like to turn the conference over to Dominic Blakemore for opening remarks. Please go ahead sir.

Dominic Blakemore: Thank you very much and good morning. I'm joined this morning by Karen Witts, our CFO. Before opening the call to questions, I'd like to say a few words on the results and the placing. We came into this pandemic on the back of our strongest performance in many years. As you know, we grew 6% organically over the past two years and we were growing at 6% organically with 10 basis points of margin progression in the first five months of this financial year. But the crisis is placing significant pressure on the business. And during the course of April, we had around 50% of our revenue suspended. The outlook remains uncertain, both in terms of the lens of the lockdown measures and what the relaxation of those containment measures, the impact it may have on our business as well as on the economy thereafter.

We've acted quickly and decisively to put the business on the very best possible footing by reducing costs by £500 million per month, protecting cash by reducing CAPEX, pausing M&A and suspending the dividend. We've strengthened our liquidity by increasing our committed facilities by £800 million to £ 2.8 billion. We've now obtained waivers from our US private placement investors for our next two leverage covenant tests.

We remain extremely confident in our medium and long-term prospects and the Compass model of creating long-term shareholder value. We'll target steady and sustainable organic revenue growth combined with industry leading margins. We invest in the business to support our organic revenue growth, the CAPEX and intel acquisitions. And finally, importantly, we reward our shareholders with an ordinary dividend and return surplus cash as appropriate.

However, we need to reduce that leverage to increase our resilience. The equity raise combined with the steps we've already taken will allow us to weather the crisis whilst continuing to invest in the business, adapting our sites to the new normal, reducing costs, enhancing our competitive advantages and supporting those long-term growth prospects. We believe this will put us in a strong position in the recovery and further consolidate our position as the industry leader in food services.

Thank you. And now we're happy to take your questions.

Operator: As a reminder, if you wish to ask a question, please press star one on your telephone keypad. We will now take our first question from Jamie Rollo from Morgan Stanley. Please go ahead.

Jamie Rollo: Morning everyone, I hope everyone's well. Three questions please. The first one, just sort of curious as to why equity, not debt. I mean, you've been pretty clear you're cautious on the outlook, but the company has pretty good liquidity anyway and you came into the crisis with low leverage. And you seem to have taken down your long-term leverage target a little as you've moved out to a post-IFRS16 basis. So I'm just, why is it, is it concern about any longer term structural change in contract catering or is there something else that we should be thinking about?

And then secondly on the cash burn, if I look at that liquidity table where you've gone up from £2.5 billion to £3 billion between the end of March and the end of April despite the £800 million RCF, it looks like the cash burn was about £250 million in April. Is that right? Is that the sort of runway fund rate we're thinking about? And if you could sort of mention working capital and any exceptionals within that conversation.

And then finally on the quite good 23% - the very good 23% April flow-through margin. Is that the sort of second we should think about going forwards and what sort of margin would you think about for the group under those stress scenarios? Thank you.

Dominic Blakemore: Thank you Jamie and good morning. If I take the first and third question and then pass to Karen for the second. First of all on the question of why equity, not debt. Look, we've clearly considered all of our options. This step isn't about liquidity, it's about reducing leverage. And it's about introducing resilience such that we can withstand whatever the next 12 to 18 months could look like and also emerge the other side with the business that we'd continue to invest in. We want to reduce our leverage back down to the range that we've traded at historically, which is one to one and a half times. And yes, on the new IFRS 16 basis, I think it's a fraction more conservative than the past, but it isn't in any way a signal of concern about our industry or sector. It's the desire to trade with the same values that Compass has always had, of conservatism and resilience.

With regards to comments about the sector, look you know, right, right now 50% of the business is suspended. We need to work through the recovery of volumes. In the near term, it's going to be about how we adapt to social distance and the health and safety protocols that will be required on site. And therefore what that means for the volumes on site. In the longer term, yes, we will have to understand what remote working, remote learning has meant for our sectors, but we do

believe that that people will return to those sites. And the opportunity for us to provide enhanced services and more valued services will be there.

In terms of drop through, yeah, we've, we've very pleased with what we've achieved. We set out a range of 25 to 30%. We're now at 23%. We believe that is sustainable operationally and isn't resulting from any one-offs at all. That's a pure operational number. We'll obviously work hard to further improve it. We quickly need to quickly need to move away from a focus on drop through to a focus on margin and the journey now over this next space is as we recover volumes, how we recover margin. And I believe in that there are three leavers to pull. One is reducing our costs to the new volume environments, the second is addressing our commercial arrangements so that we're best protected to a low volume environment, and then obviously it's being poised to welcome the volumes back into the system as they come.

If I could pass over to Karen for the cash burn question.

Karen Witts: Yeah, sure. So you know, you ask the question about the situation in April, Jamie, so effectively the cash burn is obviously very dependent on the amount of business that is open or closed. In April, about 50% of the business was closed. With 50% of the business closed, our operational cash burn is in the region of £100 to £150 million a month. Clearly our cash flows are a bit lumpy.

What we are also seeing in the short term and you did refer to working capital, is a working capital unwind. So typically at the half year and the full year, we would have negative working capital to the tune of about £100 million. And you'll have seen in the half year results that that makes – that working capital is £300 million. And that is a function of the fact that about a third of our businesses is cash sales. So when you don't have the cash sales and your debtors, realistically, all other things being equal, stay quite stable and your trade creditors which are on 30, 60 or 90

day terms, unwind. And with a 90 day unwind we would have an outflow, total out flow, including what you saw in March, of about £800 million. So if you just did that on a, a rough monthly basis then you can get to the kinds of figures that you have picked up from the liquidity profile.

Jamie Rollo: Thanks. And should we be thinking about any sort of big exceptionals if you're going to make some big redundancies in the year or even next year? Thank you.

Karen Witts: I think –

Dominic Blakemore: Jamie, look - sorry. Karen, do you want to take that?

Karen Witts: No, no, you carry on.

Dominic Blakemore: I was going to say, look you know, in the past, as you know, we've always right-sized the business when we consider it appropriate to the volume trends that we're seeing. We're obviously going to have to have, you know, have a clearer line of sight of how the sectors are recovering and what the pace of recovery is. But look, we also recognize we've got half of our workforce furloughed today. 10% of those are on government furlough programs around the world. Inevitably that will be phased out at some time and maybe phased out before volumes recover. So we just have to be poised to do the right thing. And, you know, part of our planning is to ensure that we're able to do that. But those plans certainly wouldn't in any, in any way be crystallizing that.

Jamie Rollo: Okay. Thank you very much.

Operator: We will now take our next question from Jaafar Mestari from Exane BNP. Please go ahead.

Jaafar Mestari: Hi. Good morning everyone. Three questions for me please. First one, going back to the equity raise and the rationale, I've talked about why equity. You may be help us understand how you calibrated the amounts, £2 billion. What is this expected to cover in terms of duration and what's the budgeting assumption in terms of the rest of fully year 2020, that you're trying to make sure you're well capitalized for?

Second question, I appreciate it's very early days, but could you please comment on the first few weeks of reopening where it's happened? I appreciate China's small but maybe on the first full week of reopening in France for example, how are clients behaving in offices, in manufacturing and in education?

And lastly, just in terms of your product and then your commercial strategy, what are the changes that you're making, if any? What are you pitching to your clients for H2 2020 and for 2021 in terms of service levels, frequency, opening hours, mix of services, is facilities management and cleaning doing a comeback in some of your pitches?

Dominic Blakemore: Thank you Jaafar. If I take the second and third question, then Karen can close on the, on the first. Look, in terms of the first few weeks of reopening, you know, we've obviously had experience in China. China is a small market for us. Now, I mean – and broadly, I think we all think China is around three months behind – ahead of, ahead of the rest of us. We've got about 95% of our B&I sites open with around 70% volumes. And education is yet to reopen there. So there are sector differences between countries.

With regards to our business there, it is non-urban typically and more in manufacturing. And of course, the behaviors of authorities there are different in terms of the mandate to get employees back to work as quickly as possible, but, but also the speed with which they've adapted health and safety protocols to that new environment through past experience in particular. We have seen sites open and close and we've also seen and learned a lot around temperature testing, around the hygiene, health and safety protocols that need to be adapted and how we, how we can live with social distancing in the kitchen and the restaurant environment.

We've therefore taken those experiences and developed best practices and processes that were shared around the world and with our teams, and that's enabled us to prepare for reopening elsewhere where we can work as a strategic advisor to our clients by sharing those learnings.

In terms of what we're seeing in some of the European countries right now, I think the first thing to say is it's, it's, it's very slow and steady. So you know, where B&I has reopened in France, we seeing 15%, 20% of volumes returning to work, no more at this point.

I mean, it's probably fair to say that in China it ramped up over a number of weeks and months as well, and has flattened out at the 70% level. You know, we're obviously recognizing the challenging challenges of social distance distancing in the different environments. We're seeing manufacturers talk more about multiple shifts with lower workforce. But of course that means that we need to be able to provide different daypart meals solutions during the course of the day rather than more congregating around breakfast and lunch. So we have to adapt there.

Moving on to your third question about sort of products and commercial strategy. Look, it's still very, very early days. I mean we do talk in the presentation this morning, some of the trends that we're initially seeing, you know, we see clearly a real value for health, safety and hygiene protocols. That means the PPE equipment that our employees are provided with, it means effective screens that we've got. It means the safe social distancing to dine. And importantly, it

also means how we create environments that don't feel alien but feel comfortable. And we're working with a lot of our clients at the moment as to how that can be achieved.

I think, I think the second is there is a, you know, a strong belief that, that the health and wellness agenda continues to be very important. You know, both in terms of the mental and physical wellness of employees in the workplace at home. So, you know, that's something which we already believe we had strong capability in with our sort of food science and nutritional teams and we're working very hard there.

And then finally, you know, we do believe there's going to be an acceleration in digital. So we will see every client is asking for cashless, preorder, prepay to queue bust, desk drop, grab and go, click and collect. You know, anything which takes the sort of, the congregation of people out of the system. And more personalized meals on a one to one basis as opposed to the buffet offers that we've seen before. So we think that digital has got a strong role to play in that.

And you know, all of these things are how we will adapt our offer to a potentially lower-volume environment in the short term, you know, as we all, as we all adapt to social distancing. And that I think will give us an opportunity in the medium term.

Karen, do you want to take the point around the equity raise?

Karen Witts: Yeah, the equity rationale. You wanted to hear a bit about calibration, amount and duration. So, the equity raise is part of a package of other measures. And Dominic's already talked about those and we've already taken cost savings, reducing CAPEX in the second half of this year, pausing acquisition, suspending dividends and improving our liquidity position through an additional RCF. And the way we're trying to think about this, is that we want to strengthen liquidity, we want to lower leverage and we want to continue to invest in the business. And the £2 billion is the amount that drops out of that once you've thought about your liquidity position



getting back to or getting to a leverage range within a reasonable time scale of one to one and a half times. And as I said, continuing to invest in the business.

We clearly, in terms of duration of the pandemic, I mean just nobody, nobody knows. This is a very uncertain environment. You know, when you're looking at these things, you have to take a suitably sort of conservative planning view when you're thinking about liquidity and leverage.

Jaafar Mestari: Thank you very much for this. I guess that that was precisely my question. Thanks. So I guess in budgeting and coming to the £2 billion number, because of the uncertainty, have you used your best estimates and a fairly granular recovery scenario or is there an element of a worst case approach in your calibration? Let's assume we say it's minus 45, that's the number that will definitely cover it.

Dominic Blakemore: I mean, look, we've looked at a whole range of scenarios. I think Karen put it very well when she said, look, now our responsibility as a management team is to be prudent and conservative. You know, we have looked through what some of those worst cases can look like and then we obviously have to plan for that. At this point in time it's impossible to budget, isn't it? We have no idea when sports and leisure will reopen. We have no granularity on what the education calendar and attendances will look like and the pace of recovery of B&I volumes. So, you know, we've had to look at a range of scenarios. You know, what we are absolutely committed to is that, you know, we will pull every lever available to us to deliver profitable outcomes on the different volume scenarios and over time volumes will recover and our profitability will recover.

Jaafar Mestari: Thank you very much.

Operator: We will now take our next question from Vicki Stern from Barclays. Please go ahead.

Vicki Stern: Hi, morning. Just firstly coming back on the volume outlook, I suppose as we look into next year, you talked about China operating now at about 70% of prior levels. So that gives us a sense on the volume recovery there, but just any discussion around the sort of price mix impact as we think about your total revenue for you. I suppose the offer that now needs to be provided potentially comes with a quite different price point.

Secondly, just coming back to the working from home, I appreciate obviously you know, quite early days, just curious what you're hearing though from your clients already on it in the discussions you're having. Is it, in terms of exposure, if you can give any sense as to sort of what proportion of B&I you think is sort of potentially exposed to that theme? And also do you see that theme in any way touching other segments outside of B&I?

Dominic Blakemore: Thanks Vicki. Thank you. Good morning. Look, on the subject of price mix, I mean clearly we've got a few things going on here, haven't we? There are additional costs to provide these services. We know that in PPE and hygiene and packaging, it's a different meal offer. And I think our clients thus far are recognizing that that's absolutely the case and absolutely essential and necessary if they're going to say if they're going to safely bring employees back into the workplace.

So we're having positive conversations about the cost structure. And obviously within that also is the deleverage impact to volumes. So we've got to be very thoughtful about how we recover our costs with appropriate contracts and we're having those conversations with, with our clients and we'll seek to put protections in place in our business, in the short term and on renewals and new business, which, which cater to this new environment as it were.

So, you know, there's a lot going on there. We're very focused on it and you know, absolutely. What I believe is the next 18 months is about relentless operational focus to drive both the cost savings and also that price recovery that you described.

Look, on the second point about working from home. I mean, just the size, it's, you know, we do believe that there are very different trends by sector, by geography, by urban and non-urban area and so forth. So we don't think this is, this is one dimensional in any way. With regard to industry, the conversations with our clients are absolutely that they need to get their workforce back in the workplace. And this isn't about working from home in the manufacturing environment, of course. So, you know, we do believe that we will see that, and that's 40% of our B&I sector. So 60% is really the business elements of that. And again, you know, there will be a split between major city and outside and the ease with which people can get to the office without using major transit systems. I think that's also a limiting factor. And when I've talked to clients, and I've talked to a number of senior clients around the world and CEOs of our major companies, they recognize – I think everybody is recognizing there has been an efficiency and an ability to work effectively from home but there's also been many limitations. And the ability for people to socialize, congregate, create together, engage, remains incredibly important to their business models.

So you know, what we're hearing come out of this is an ambition to have greater flexibility but more structured. And I believe that's important to us because at the moment, as you know, there is significant ad hoc homeworking, which means Wednesdays and Fridays can be at 40 to 60% volumes and other day 70% or 80%. What we believe will emerge over time is a more structured program where different teams work from home at different times and so forth, which will give us the ability to plan better for those volumes, adjust our cost base accordingly, and ensure that we have the best offer for those for those office workers.

And also of course, you know, we're discovering through this an opportunity to provide evening meal solutions, meal kits, next day lunch bags to homeworkers as they leave the office environment. So again, there's an awful lot going on and I think we need to recognize that, you know, this is, this may be a trend and therefore how do we respond to it positively?

Vicki Stern: Thank you. And I'm sorry, is it a trend that in any way touches any of the other segments? I'm thinking higher education.

Dominic Blakemore: Yeah. Sorry, sorry, I didn't pick up on that. I mean look you know, for obvious reasons, we don't believe it impacts any of the other sectors bar education, and that would be higher ed. Look, we have seen remote learning. And you know, remote learning has been a solution to the need not to be on campus in the short term. Again, you know, I've talked to the senior education leaders and you know, there's a recognition of the importance of societal contacts and individual development. And therefore they're keen to have a balance where students are on campus and maybe social distancing and density is dealt with through a mix of lecture attendance and online lectures.

So I, I think we'll see a number of things can come out of this and we're just going to have to course correct as we go.

Vicki Stern: Very clear. Thanks.

Operator: We will now take our next question from Daria Fomina from Goldman Sachs. Please go ahead.

Daria Fomina: Yes. Hello. Thank you so much. I'm going to ask my first question on the universities and we just finished that topic. We are in some way negotiating for the next year. Can you talk a little bit about how that conversation is going? A lot of the universities are under distress, how you expect that season to evolve for the 2021 revenues and contracts?

My second question will be on the cost split. Obviously you buy three – I'm sorry if I missed it, my line dropped – you were guiding £450 million savings, now it's £500. Can you give a bit of a split over whether there's a part of it is government support and how big exactly that is so we can think through the impact when that unwinds? And my last question is on market share gains that you've mentioned and the growth out performance on the back of first-time outsourcing. Is there any way for you to quantify that benefit and the level of interest that you've seen now as we're going through this distressed April and May month? Thank you.

Dominic Blakemore: Daria, sorry, I missed, would you mind repeating your first question? I missed that one.

Daria Fomina: Sure. It's on the universities, or education rather, renegotiation season for 2021. How is that going and how you see that shaping up as the summer months are very important? And whether you see a risk of a dramatic reduction, as a lot of universities are under – or some of the universities under financial distress themselves?

Dominic Blakemore: Thank you. Sorry, why don't I take the first and third questions and then, and then Karen takes the second. Look, on higher ed and universities, I think I should make the point more broadly, we've continued to win new business and retain business even through the crisis. And we've seen that in all of the sectors. And of course we've been very thoughtful on any terms of business that have absolutely protections we need as we go forward. We've had positive renegotiations where necessary, but I think you make a good point. There will be a number of

institutions through this which will be stressed. They may be in sports and leisure, they may be in higher ed, they may be in healthcare and we're going to have to see how that also unwinds and impacts the business.

I mean, I think this is analogous in many ways to, you know, post the global financial crisis. We can talk a lot about, you know, how social distancing is impacting the business consumer client environment, but you know, we're also going to have to recognize that we may have, you know, volume pressure from exactly what you describe. And again, you know, that's what we're going to have to address as we go through managing our cost base and selective management of clients.

But when it comes to market share gains and first time outsourcing, again, you know, what grounds is the period after the global financial crisis, we saw an acceleration then in first time outsourcing as institutions sought cost savings. We believe this will now be about cost savings and great health and safety protocols, which we believe will be able to play into. And therefore we think it's critical that we continue to invest in the capabilities which will allow us to win those opportunities.

In terms of share gains, we've already got examples of competitors who are unable to operate at all in this environment and therefore business that they were mobilizing has come to us to, to start and take forward. So, you know, we do know that that will be both of those opportunities we've got. I think we have to look at our net new and make the right decisions to ensure we have the right contracts to exploit that opportunity and then work really, really hard on the volumes to ensure that we're getting the right profitability profile in that new volume environment.

Karen, do you want to pick up on the cost savings?

Karen Witts: On the cost savings? Yes. Yeah. So as you can imagine, we've been working really hard and really fast on the cost mitigation. And you know, so far we've got cost mitigations of about £500 million per month. They come from a combination of reductions in our own unit labors. So, you know, that includes some overtime contractors, temporary workers, as well as government support schemes. We're also reducing salary. People are on reduced hours in our above-unit overheads levels. And then we've also reduced our in-unit overheads, things like rent, rates and concession fees. And you're right, the number has increased, as we have given out an update to in April and we said we had cost mitigation of £450 million, and now we're saying 500 – in March, sorry, £450 million and in April we're seeing £500 million.

Now, the difference between the two has come partly but not fully from the government support kicking in. Now, you know, with 50% of our business currently suspended, we have furloughed about 50% of our workforce. And 13% of our workforce is receiving some form of government support. The government support mostly come from Continental Europe and the UK, there's very little in North America and there's none in Latin America. Every country has a different theme, different duration, different contribution to the support. It's very complicated to work through. And you know, just to emphasize again, when we're thinking about this from a cost-saving perspective, it's not that the support schemes cover 100% of the cost, they make a contribution to the cost.

Vicki Stern: Thank you.

Operator: We will now take our next question from Jarrod Castle from UBS, please go ahead.

Jarrod Castle: Good morning everyone. Three as well. Can you maybe just talk a bit about where you were in terms of perm versus temp mix you know, across the organization and how you see that evolving now going forward? You know, given I guess you'll need more flexibility, not less.

Secondly you've put M&A on hold. What about disposals and you know, indeed, will you be looking to scale them back or maybe accelerate some disposals? And then you touched on I guess a little bit on pipeline, but can you just give a bit of additional color in terms of, you know, has the pipeline itself shrunk? You know, is it all the indications of growth and you know, any kind of forward indications on client churn, you know, as you went from March to April to May would be interesting if you could, if you could give some color there. Thanks.

Dominic Blakemore: So if I let Karen take the perm versus temp question, I'll do the other two. I mean, look, we've put we put all M&A on hold. As you would expect, anyone who was in any discussions with us has also paused their processes.

Then just in terms of sales pipeline, I think you were referring to. I mean, look, we had a very exciting pipeline in many of our markets coming into this. Some processes have continued to run. Others have been put on hold and actually some have been accelerated to a positive outcome. And on retention we've also seen a significant opportunity to extend business and retain business through accelerated processes. Again, I think it's a good example of clients wanting, you know, resilient partners. So look, you know, I think, we have definitely seen a pause. It's been difficult for people to work through these processes virtually and online. But you know, there has been a continuation and the indications continue to be broadly positive.

Karen Witts: If I just pick up on the perm versus temp question, Jarrod, temporary labor is about 12 to 13% of the global workforce. And the extent of flexibility in our labor model is partly a function of the labor law environment by country, by region. So we have a very flexible model in North America. And you know, clearly labor laws in Europe in particular are a bit less flexible, but we are always looking at ways to make the way that we deploy labor more efficient and more effective. And clearly given the current situation, we're going to have to think even harder about that.



Jarrold Castle: Okay. Thanks very much.

Operator: We will now take our next question from Kean Marden from Jefferies, please go ahead.

Kean Marden: Morning all. I've got a few more questions on unit economics if you don't mind. I think I've read some reports recently suggesting that sites would require a dedicated sanitation employee. Is that something that you agree with or do you think that those tasks can be conducted by the existing workforce and therefore you don't necessarily need to run with additional head count in units?

Then interested in your comments on positive discussion with clients. Just on those, does that relate to sort of upfront CAPEX that might be required in the business? So, kiosks, trollies, additional sort of serving, some shelving and does that relates to OPEX as well. So there's a distinction between the two. And also interested in whether those comments also apply to your fixed price contracts that you have in the portfolio as well?

And then finally could you maybe provide some insight into, what does the in-unit margin look like in China, if you're operating at 70% of the previous revenue? Are you still profitable at that level or not?

Dominic Blakemore: Kean, there's a lot of, a lot of detailed questions in there. But let's just try and pull a few apart. I mean, look, when it comes to your comments about sanitation workers on site. Look, you know what we're doing is two things. We're working with public health authorities in the countries in which we operate as well as our clients to ensure that we've got processes and protocols that meet minimum local country standards, and they will be different for us everywhere.

And then also we have a conversation with our clients about what best practice looks like. And of course that also includes disinfection, hygiene services and potentially dedicated workers for that where we have the capabilities. So we actually see that as an opportunity for, again, differentiation and also value creation, because these services are essential and critical.

When it comes to the client conversations, you're absolutely right. There's a differentiation between OPEX around, you know, additional costs to serve in this environment and CAPEX, which is about ensuring the environment is appropriate as we go forward. You know, they're all individual conversations. I think clients recognize, again, the criticality of having the right environments and the right services and that that has a different cost profile. And that's exactly what we're, you know, discussing with many of them today to ensure that we protect our own commercial terms and recover those costs. So, you know, there are a number of ongoing conversations of course about how we, how we move to trading terms with our clients that protect us and provide these services, which I really do believe they're valuing at the moment.

And remember, you know, a third of our book is cost plus contracts, which allows us to recover that. You're absolutely right to point to fixed price, where we've got unitary economics which are based on volume and leverage. And that's where we working very hard to, to put protections in place both in terms of volume analysis but also reversion to cost plus, particularly through the reopening phase, where, you know, putting these new measures in places is more costly.

And all I can say in China is as, as we will learn everywhere, it's a journey and you know, our ability to restore unit margin to its former levels will be based on, on three things. First of all, our ability to manage costs to that new volume environment. Secondly, our ability to recover exactly the new cost that you've described. And thirdly, you know, as those volumes restore so look, you know, I can't recall the margin in China right now, but I do recognize that this will be a journey for us over time and we're working very hard on that.

Kean Marden: Right. Apologies for the detailed questions but that was really helpful. Thanks again.

Operator: We will now take our next question from Stuart Gordon from Berenberg, please go ahead.

Stuart Gordon: Yeah, good morning. And a couple of questions here. You've mentioned significant reverse inquiry from some companies out there for you coming in to step in and offering services. Are you also getting reverse inquiry from some competitors who are financially distressed and looking to come under the Compass umbrella? And if so, how will you adapt the sort of suspension on M&A if some of that is interesting?

And secondly, under the reverse inquiry, both elements is that – I assume that that's excluded from the sort of sensitivity, which I appreciate is not in any way guidance, but the sensitivity chart that you show in the presentation slides?

Dominic Blakemore: Yes. Thank you. Yeah, absolutely. Again, just to stress those sensitivity charts are illustrative and stress tests. And yes, they are volume profile and not net new business as it were.

With regard to the reverse inquiries yeah, I mean we've had – we've closed a number already, as I said earlier. And interesting, yes, you are right. Well, you know, there are, there are others in the industry that are considering their futures. And of course, you know, we need to be very careful not to inherit bad books of business, but there are different ways of working with people than simply traditional M&A.

Stuart Gordon: Thank you.

Operator: We will take our next question from Peter Testa from One Investments. Please go ahead.

Peter Testa: Hi, a couple of questions please. I was wondering on the sites that you have which are open, where you've basically put in health and safety and so on and you've also started to adapt menus, can you give any sort of sense as to how the total cost to serve, say, including menu simplification and maybe extra labor, is working as you've had to stretch hours and so on.

The second question is, as you mentioned there's – not all the furloughed labor costs are covered by governments. Can you give some sort of sense as to how much your cost of furlough is at the moment? Within that 500 savings, you know, what's the gross number including the fact that you're having to pay part of furloughed staff costs at a period when you're shut?

And then the third thing is you've talked a bit about the opportunity on retention being potentially better in the short term and sales obviously a bit more challenging. Can you give any sort of sense of how the net changes versus a normal Compass flow in that front?

Dominic Blakemore: I mean, I guess with a number of the questions we received, and your questions now Peter, you're asking for a degree of precision which is incredibly hard for us to give. You know, eight weeks into this crisis with so many changing dynamics, and you know, I'd ask you all to just reflect on that as well. You know, we can give you mood music and trends at the moment, but, you know, I think we have to just respect that. Look, you know, we're working really hard. In the first instance to your first question on site openings, we're working really, really hard to do everything our client needs and wants and we believe that's what will create the goodwill for us to be able to recover those additional costs and services and to have thoughtful and sensible

renegotiations. So, you know, as you would expect, I think we've managed costs as well as anybody in our industry and we will continue to do that.

I'll just ask Karen in a second to comment on the furlough points. And again, with regard to retention and sales, it's just too early to tell. You know, we're seeing, I wouldn't say a dramatic change in either immediately, but it's very, very difficult to tell when we've had eight weeks of these, these types of working conditions. So I think we'll have better views on that as we get to, to Quarter Three and beyond. I think to the point though, we all need to track the evolution of net new and the evolution of volume separately because you know, winning on net new will be about the long-term health of the business. Recovering volume will be about protecting our profitability, and the two are exactly what we're focused on as a management team.

Karen, the furlough question.

Karen Witts: Yeah, I mean I think you commented on it, Dominic, I mean that's a very, very granular question and things do change all the time. And, you know, just to give you an example of the kinds of change that we see, you know, up until about 10 days ago in the UK, government was covering about 80% of the cost of employees who had been furloughed up to the end of June. They've now extended the timeframe and reduced the support. So it's – and each country, as I've said, is very different, ranging from, you know, about 80% being – 60% being covered, right up to 100% being covered. And so I think, you know, maybe another way of looking at is to say we've got 50% of our workforce who are working and 50% who are not, and the ones who are not, are covered either by a combination of government support, some of them are client-paid, and then more typically in the US after a very short period of time people don't get paid when they're on furlough.

Peter Testa: Right. Okay. But is CAPEX going to change a lot going forward do you think?

Dominic Blakemore: Karen, do you want to take that?

Karen Witts: Yeah, I mean I think, I think again, you know, we just, we just need to wait and see. And I think we feel that rather than necessarily changing a lot in percentage of revenue terms, and clearly the quantum all depends on, you know, maybe what our revenue is, if we want to keep that sort of metric, we actually think that the CAPEX may look a bit different. So you know, up until now we've had CAPEX focused on sports and leisure, focused on education. We actually think that there is an ongoing place for CAPEX more in the digital space. And in terms of adapting kitchen and dining rooms to new health and hygiene requirements for social distancing.

Peter Testa: Great, thank you very much for the help. Thank you.

Operator: We will now take our next question from Richard Clarke from Bernstein. Please go ahead.

Richard Clarke: Good morning. Thanks for taking my question. I've three if I may. The company presentation you've put out today specifically mentioned inorganic growth opportunities and presumably these are over a longer period of time, but if you could comment on maybe where you might see inorganic growth opportunities. Are these going to be distressed competitors or more technology players?

The second question is your goodwill balance seems to have survived this. If you could just comment on sort of the nature of the necessity to take any impairments and the decisions on not impairing that goodwill balance.

And then lastly, just on Europe, margin down 170 basis points. My rough estimate is that means the drop-through there was somewhere in the sort of high 40s, which is quite a bit higher than obviously you were showing for Europe drop-through last year. Just any comment on what's happened in Europe, you know, why is the margin down so much there?

Dominic Blakemore: Yeah. Let me take the first question and then Karen could pick up on goodwill and Europe. Look we, yes, we talk about inorganic growth. Obviously that is an opportunity that we believe will be there in the medium term. Look, we believe healthcare is a sector of great opportunity. We'll be better recognized and valued as we go forward, as well as aged care. There's a significant self-opportunity within that space. So, you know, it will be, we will look at sectors when we're considering this, yet we do believe also the maybe distressed business opportunities. And finally, yeah, I agree capability requirement may be different. You may have seen our feeder acquisition before the COVID crisis in London, which gives us the capability to have online delivery to SMEs across London where they wouldn't typically have onsite catering. So I think there are a number of things at play there. You know, we've always, we've always participated in infill M&A and we'll obviously be circumspect and very thoughtful about returns in this environment. And it absolutely, I want to stress again, you know, this 18 months is about relentless operational focus as we see volumes recover and as we restore the profitability.

Karen Witts: Richard, I wasn't sure if I heard you correctly. Did you ask – was your question, why have we not had any goodwill impairments in the half year?

Richard Clarke: Yeah, I guess that was one question. Yeah. Whether there was any, or would there be any necessity to impair any of that goodwill. And then second question was just on the Europe margin performance, down 170 basis points. Looks like a big drop-through in Europe, any comments around that.

Karen Witts: Okay. So let me pick up the goodwill question first then. And so the short answer is that we have sufficient headroom across all our countries and regions. And you know, in actual fact, you look at you look at headroom in terms of long-term cash flow and it would be surprising if you saw any anything in a phenomenon that so far has only lasted eight weeks. But you know, technically we've got sufficient headroom if we were [inaudible].

And then in terms of the Europe drops route, actually we did make progress between the end of March and the end of April. So that was, you know, when I spoke about the cost mitigation increasing from £450 million to £500 million, that was between March and April. You know, in March, the impact of COVID, you know, was over a two-week period. That's, you know, quite hard to mobilize a cost reduction in that period and by April, the drop through had decreased quite significantly. And that was a big contributor actually to the overall drop through in the – from 28.5% to 23%.

Richard Clarke: Yeah. Maybe if I can just one quick follow-up, just because you brought up Feeder[?] there, Dominic. Feeder is actually delivering to home. I think part of its offer is it does say it can facilitate working from home. Is this something realistically Compass could ever do at scale? Or is this just something for the moment that's happening right now?

Dominic Blakemore: Look, I think with a lot of digital it's about experimentation, isn't it? You know, what we like about it is the capability to deliver into SME. We believe that there's an opportunity to deliver different solutions into our existing client base. And we do believe potentially that the homeworker could become a target consumer and therefore any routes to target those individuals could be, could be positive. But we just got to be, you know, we've got to suck it and see, haven't we, as we go?

Richard Clarke: Thank you very much.



Dominic Blakemore: Thank you. Can I ask for maybe one last question and we'll close the call.

Operator: We will now take our final question from Rowan Marron from Rathbone Brothers, please go ahead.

Rowan Marron: Hi guys. I'm afraid it's back on the place thing again. So we're at what is probably the trough. You guys are burning £100 to £150 million cash per month. You got £3 billion liquidity. So that's a 20 months plus run rate. I mean, you know, you don't have big debts, balloon payments. Walk me through, in what scenario do you really need that £2 billion pounds?

Dominic Blakemore: Okay. I mean, I don't think any of us have got the ability to predict troughs. You know, look, we have considered a number of different scenarios. We've taken what we believe are responsible actions as a board to conservatively plan for those and take all the actions necessary. And as you've heard us say today, we want to reduce – we will have an elevated EBITDA to net debt leverage ratio for some time as we navigate our way through recovery. Our desire is to flatten that particular curve as quickly as possible and restore our historic leverage whilst continuing to invest in the business. And therefore we believe it's appropriate to be on the front foot, take actions quickly, and to do so, you know, ahead of any prolonged uncertainty.

Rowan Marron: I can see where you're coming from but I'm not convinced it's a good reason to raise a large part of your market cap at a depressed price.

Dominic Blakemore: Thank you for the question. I think we'll now move to close the call and specific with – specifically with regard to the placing. We spoke to many of our investors in the days ahead of launching the deal and I'm pleased to say that the book is now formally covered. Thank

you all very much for your questions today and your contributions and we look forward to speaking to you after the third quarter results.

Rowan Marron: Thank you.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation.

Ladies and gentlemen, you may now disconnect.