

Legal Entity Identifier (LEI):

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30 July 2020

Q3 Trading update

This statement updates investors on the Group's performance since 31 March 2020.

Dominic Blakemore, Group Chief Executive said:

“Throughout the COVID-19 pandemic our priority has remained the health and safety of our employees and consumers. Trading has been challenging, but we continue to manage the business to protect the interests of all our stakeholders, including our people and the communities in which we operate.

We are working with our clients to help them reopen and bring their teams back safely. We are also seeing encouraging signs of an acceleration in first-time outsourcing opportunities. 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.”

Group

	Organic revenue		Operating margin	
	Q3 2020	Q3 YTD 2020	Q3 2020	Q3 YTD 2020
North America	(45)%	(13)%	(3.1)% ¹	5.7% ¹
Europe	(54)%	(21)%	(14.5)% ¹	1.1% ¹
Rest of World	(20)%	(5)%	3.1% ¹	5.4% ¹
Group	(44)%	(14)%	(6.3)%²	3.9%²

In a quarter when lockdown measures were at their most severe in our major markets, the steps taken to contain the spread of the virus impacted our sectors in different ways. Performance in Healthcare and Defence, Offshore & Remote was good. Our Education and Business & Industry sectors were mostly closed in April and May, and started to cautiously reopen in June, while Sports & Leisure remained fully shut. By the end of June, about 60% of our business³ was open, compared to 55% by the end of May. Retention was robust at 95% and we have started to see attractive new first-time outsourcing opportunities. Group organic revenue declined by 44% in the third quarter and by 14% for the nine months to 30 June 2020.

Our sites are re-opening with best in class Health & Safety protocols, and we are actively entering into contract re-negotiations with our clients to recover the costs of operating safely and with lower attendance levels. We began to adjust our business to the new trading environment

¹ Excluding resizing costs

² Including Group overheads and £42m in resizing costs

³ % of June 2019 revenues including all acquisitions and disposals

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 through⁴ improved further to 20% in June. As a result, the Group's operating margin was (6.3)%⁵ in the third quarter and 3.9%⁵ for the nine months to 30 June 2020.

Regions

Our business in North America has a good sector balance between Business & Industry, Education, Healthcare, Sports & Leisure and Defence, Offshore & Remote. Due to the different containment measures at the state level in the US, our operations in North America have been slightly more open than in Europe. As sites reopen, we have entered constructive conversations with clients to recover the higher costs of operating with enhanced Health & Safety protocols and lower participation rates. This, combined with more flexible labour laws, has allowed us to adjust our cost structure and start to rebuild the operating margin.

In Europe, our business is more weighted towards Business & Industry with a relatively small Healthcare business. In addition, the lockdown measures in our major markets have been deeper and more widespread than in other regions. We are starting to see a small number of sites reopening, and in those cases, we are working with our clients to pass through higher operating costs. However, the exposure to Business & Industry, stricter containment measures and a less flexible work force mean that although we are actively managing the situation, progress in the region will 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 & Remote which has not been significantly impacted by lockdowns. The operating margin was slightly positive as a result of the good performance in Offshore & Remote in Asia Pacific combined with swift labour cost actions in South America.

Cash

We continue to manage our cash judiciously and have focused on working capital management and agreed tax deferrals. Our free cash flow in the third quarter was an outflow of £260 million, which included capital expenditure of £130 million, and was mainly contractually committed investments. Working capital was an outflow of £100 million, flattered by tax deferrals of around £220 million and a significant improvement in the collection of receivables.

Financial position

Net debt was £3.2 billion at 30 June 2020. Proceeds from the £2 billion equity raised on 19 May 2020 were used to repay £600 million of the Bank of England's COVID Corporate Financing Facility (CCFF), repay £201 million drawn credit facilities and repay £42 million maturing Commercial Paper. As of 30 June 2020, our total liquidity was £5.0 billion (£2.8 billion in undrawn credit facilities, £600 million available CCFF limit and £1.6 billion in cash). Our solid financial position will allow us to weather the crisis whilst continuing to invest in the business to strengthen our competitive advantages and support our long-term growth prospects.

Currency

Trading results from our overseas operations are translated at the average exchange rates for the period. If current spot rates⁶ continue for the remainder of the year, foreign exchange

⁴ Drop through is defined as margin on lost revenue

⁵ Including Group overheads and £42m in resizing costs

⁶ Closing rates as at 24 July 2020

translation is expected to reduce 2019 reported revenue and underlying operating profit by around £245 million and £19 million respectively.

Outlook

At the time of our Half Year results announcement on 19 May 2020 we withdrew our previous growth and margin outlook for 2020. Trading in the third quarter was in line with the Slow Recovery scenario described in our Company Presentation of 19 May 2020.

The pace at which our volumes will recover is still unclear, especially given a possible increase in local lockdowns. We are encouraged by the relative improvement in performance in June, as well as the early signs of an acceleration in first time outsourcing opportunities. In the meantime, we continue to work with our clients to help them reopen safely. We are proactively managing the business, reducing our costs, rebuilding our margins and investing to strengthen our competitive advantages.

Looking further ahead, we remain excited about the significant structural market opportunity globally, and the return to organic revenue growth, margin improvement and returns to shareholders over time.

2020 Reporting Calendar

In order to provide analysts and investors with more frequent updates on our financial performance our reporting calendar in 2020 will be as follows:

30 September 2020	FY 2020 Pre-close trading update
24 November 2020	FY 2020 Results

Compass will hold a conference call for investors and analysts today 8:30a.m. (UK time).

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Note to Editors

- a) Compass Group PLC is the world's leading food service company, which generated annual revenues of £25.2 billion in the year to 30 September 2019. It operates in around 45 countries, employs and engages over 600,000 people and serves over 5.5 billion meals a year. The Company specialises in providing food and a range of support services across the core sectors of Business & Industry, Healthcare & Seniors, Education, Sports & Leisure and Defence, Offshore & Remote, with an established brand portfolio.
- b) Organic revenue growth, a term used throughout the announcement, is calculated by adjusting for acquisitions (excluding current period acquisitions and including a full period in respect of prior period acquisitions), disposals (excluded from both periods) and exchange rate movements (translating the prior period at current period exchange rates).
- c) Forward looking statements

Certain information included in this announcement is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the foodservice and support services markets in the jurisdictions in which the Group operates, fluctuations in food and other product costs and prices and changes in exchange and interest rates. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

- d) A copy of this release, together with all other recent announcements and presentations can be found on Compass Group's website at www.compass-group.com.