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Operator

Welcome to the Compass Group, Q1 Trading Update Call. Today's call is recorded. Hosting today's call is Dominic Blakemore, group chief executive. Following the opening remarks, you will have the opportunity to ask questions. In order to ask a question, please press star one on your telephones, and please be sure to unmute your line before doing so. I will now turn the call over to Dominic Blakemore for opening remarks. Please go ahead, sir.

Dominic Blakemore

Thank you, Emma. Good morning and thank you all for dialing in. As usual, I'm joined by Karen Witts, our CFO. I'm sure you've read this morning's statements. Before I open the call to questions, I'd like to say a few words on our performance and outlook. Q1 revenues were similar to Q4 and they aligned with expectations. Given the anticipated second wave and continued containment measures taken by governments around the world. B&I and sports and leisure revenues remained broadly unchanged. Revenues in education softened slightly in North America as students didn't return to school after Thanksgiving. And revenues in defense of shore and remote and healthcare and seniors, so were continued improvements. I'm very pleased with our excellent retention of 95. 7%, which is as high as it's ever been. And I'm very encouraged when new business wins although they are yet to contribute meaningfully to our revenue base. In the quarter new business growth was suppressed by delayed openings and lower volumes. Despite the lack of improvements in volumes quarter on quarter, the group's operating margin increased by over 200 basis points. From 0. 6% in quarter four to 2. 7% in the first quarter. This is due to the series of actions we've taken over the last year. Through dark tower operations and to manage our cost base more flexibly. Including contract renegotiations and resizing of the business.

Although the vaccination rollout is underway, the pace of volume recovery continues to be uncertain. Therefore, we anticipate Q2 revenues and volumes will be broadly in line with the first quarter. However encouragingly, we continue to make good progress managing costs and expect our second quarter operating margin to improve by a further 50 to 100 basis points. By achieving this, we'll be halfway to recovering our pre COVID margin, putting us firmly on track to rebuilding our underlying margin above 70%. And so in summary, we focus on controlling the controllable. We've improved margins again without significant volume improvement. We're excited about the strong pipeline, particularly in the more defensive sectors of healthcare and seniors, education, and defense of [inaudible] remote which will diversify and broaden our revenue base. And we continue to be excited by the significant structural market opportunity globally. These opportunities, combined with innovation and a more efficient operating model, will help us to emerge from the pandemic stronger than we've ever been and will allow us to further consolidate that position as the industry leader in food services. We'll update the market again on the 25th of March. Thank you, and now we're very happy to take your questions.

Operator

Ladies and gentlemen, if you'd like to ask a question, you can do so now by pressing star one on your telephones. That's star one to ask a question. We will now take our first question from Blaise[?] from UBS. Please go ahead. Your line is open.

Bilal

Good morning everyone, It's Bilal from UBS. Thank you very much for taking my question and three from my side, please. And firstly, just on the pace of margin improvement for the additional 5,200 bits expected in Q2, you very helpfully detailed out all the cost actions you've taken in the four years. The result was structural cost was 70 million. I guess with the volume environment as it is right now, when did you get to analyze some of those benefits into a more steady state and then rely more so on volumes? Number two, the net win rate in North America was I think close to about 6.1% in the fourth quarter. Can you perhaps provide any color on how that's trended in Q1 please? And lastly, just on Q2 guidance, were there any notable differences between the months in Q1, with regards to organic growth trends? Just thinking of the shape of volumes ahead, by memory, I think you might be annualizing about two weeks of the COVID impact in Europe in Q2, although I appreciate smaller than a group basis. Thank you.

Dominic Blakemore

Thank you Bilal for those questions. If I take the first two, then I'll pass the third one on the Q2 trends to Karen. Look, firstly, on the pace of margin improvement, I just want to reiterate, we are really pleased with what we've achieved and what we guiding to in quarter two. We've come from minus 5% in the third quarter of last year to what will be around plus 3½% in quarter two, with little or no volume recovery in the last six months. So we've only seen 10 percentage points of volume come back and sees us at about two thirds of our pre COVID volume. So we think that is very significant margin improvement. Obviously, you know, we have a series of plans that each quarter's actions will annualize as we go forward and we have a series of plans in place that are volume agnostic. So should volumes not recover, we will continue to make margin progress as a result of those actions.

Now as, and when volumes do recover, we would expect the pace to pick up somewhat. And obviously, you know, we said before, we don't expect the volume recovery be linear, it will be lumpy. I think what you've seen in the fourth quarter and the first quarter was, you know, significant changes we got of the benefits of the actions that we've taken. Obviously in quarter two, we guided to a slightly slower pace as we see the volumes flatten, but we are, we do have confidence that we continue to make margin progress regardless of volume as we look forward. And then that can accelerate with volume.

Secondly, on the point of the new business or net new business win rates in North America, we know were around 5% as a group last year. We're at the same level in the first quarter of this year and that really is suppressed by two things. One, delayed openings and secondly by lower volumes on the business that has opened. And once those contracts are annualized and volumes do recover, that will obviously go through like as we've said before. However, the absolute number of contracts we're winning is very positive in all of our regions and especially in North America where the winning rates and number of new contracts that we're winning is as good as we've seen. That is biased towards healthcare and education at the moment, with less within BNI in sports and leisure and you're seeing an uptick in first-time outsourcing. So all of that feels very positive for the medium-term future as volumes recover. So, yeah, we're pleased with the continuing trends and the pipelines look good across all of the regions, as well as they do within North America. Karen, over to you for the Q2 trend.

Karen Witts

Thanks Dominic. Well, as you know, it's the revenue that really remains uncertain, and as we entered the second quarter we saw varying lockdown measures in place across our key markets. And some of them are a bit different than what we've seen pre-Christmas. So our view is that we anticipate the Q2 revenues and volumes will be broadly in line with Q1. It is what's noting from an organic revenue perspective, that in P6, we start to analyze the COVID impact. So last year we had two weeks in March which were impacted by COVID compared with a whole quarter with all these varying lockdown measures that are in place.

Bilal

That's very clear. Thank you very much.

Operator

Thank you. We will now take our next question from Jamie Rollo from Morgan Stanley. Please go ahead, your line is open.

Jamie Rollo

Yeah, thanks. Morning everyone. Just pulling back on one of those questions please. Just to be clear, the comments about the second quarter being similar to the first quarter, you're talking in Sterling revenue here. Because as you say, your March, because last year went down about I think 20%. So are you either saying it's down 34% versus 2019 or is that down 34% versus 2020? I'm just wondering whether you're stripping out those two weeks. Second question is wondering, Dominic, you can give us parts on that pipeline. Anything to draw out in terms of whether we might see an acceleration in contract games [inaudible] out by industry or by region. And then finally, just on that margin progression, I'll appreciate if not linear, you'll think it's just still move ahead. I think consensus margins are about 4% for the year, which is 5% for the second half. And that would imply a continued sort of, you know, nearly a hundred basis points to clinch your progression. Which is obviously no additional slowdown from here when it has slowed quite a lot. I was wondering how you feel about that 5% second half margin. Thank you.

Dominic Blakemore

Thanks Jamie. I'll take the first two and then pass the third question on to Karen. Look, firstly, yeah, the sort of downer third is against the 2019 sort of pre COVID impact. And what we will have to do as we go forward is ensure we show you both organic growth against the prior period, whether it was COVID impacted or prior. And then separately, we want to anchor ourselves in our scale and volumes against the pre COVID equivalent periods, because we believe this recovery is first about margin, then de-leverage and then it's about restoring scale to pre-COVID levels as quickly as we can. So we want to stay anchored in that. And yes, we believe will continue to be about a third down against the pre-COVID volumes as they were.

Secondly, I'm pipeline color and look, really, sort of growth starts with retention. And, you know, the one thing I would call out is with reporting today, we've mentioned 95.7%. That's close to a point better than our historic average, we don't believe that that particularly about deferred processes are continuing or be virtually. We do believe it's about what we're describing as the fight to trust and the quality of our client relationships. And I think it also shows that we're not compromising service for margin. That's very, very important. So that retention is good, it's improved across all of the regions. And as we look at what we've achieved in the first quarter, those trends continue to be very positive.

When we are talking about the new business pipeline, again, it's very strong in all three of our regions. In North America inspires towards healthcare, education, with a slot with the up waiting we've talked about in first-time outsourcing, we've seen a little bit of a slowdown in BNI and more so in sorts of measures you would expect, whether it's to a greater uncertainty, about when events will start again. In Europe, it's been a strong performance, a strong pipeline in BNI and healthcare in particular, which we're very pleased. We know we've made a good start in Europe on new business. And then in rest of world, actually across all of our sectors, we're seeing good wins and good pipelines, nicely balanced and the same across sort of the more developed markets in the rest of the world and emerging as well. So, you know, it feels a positive start to the year from new and retention with a good pipeline of opportunities ahead of us. Karen, over to you for the margin progression point into the rest of the year.

Karen Witts

Thanks Dominic, thanks Jamie for your questions. You know, given the uncertainty that we're facing into at the moment, our focus is on looking out a quarter at a time and we're trying to give you as much color as we possibly can on that. And as you know, we actually withdrew our full year guidance by saying that our ambition is certainly to continue to improve the margins quarter on quarter. We don't think that the margin improvement will necessarily be linear, and we've seen that Q1 had a big step up from Q4. The benefits from the initiatives that we've taken have come through and we've guided you to further step up between Q1 and Q2. So, you know, if volumes do come back, then our margin will improve more quickly than if they don't come back in the short term. As Dominic said just a bit earlier on this call today, there are choices are in costs that we can make and we will take if necessarily, as we look at the environment around us. And then in the longer term we still expect the margin to return to above 7% before we recover the pre-COVID volumes.

Jamie Rollo

Thanks, so just to ask another way perhaps. That 50 to 100 basis points improvement in Q2, from a sort of volume agnostic basis, could we assume that continues into the second half of the year?

Karen Witts

I think we'll continue to.

Dominic Blakemore

Go ahead Karen.

Karen Witts

No, sorry Dominic, go ahead.

Dominic Blakemore

I was just saying, look, you know, we expect to continue to make progress and that we'll update at the half year on what we think that is for the second half, once we got in particular a better view on volumes.

Jamie Rollo

Okay, thank you.

Dominic Blakemore

Thanks Jamie.

Operator

Thank you. We will now take our next question from BNP Paribas, please go ahead. Your line is open.

Speaker

Hi, good morning everyone. I've got two questions if that's okay. Firstly, on margins, maybe on the mechanics rather than on the numbers. To understand how it's going to work going forward. You now have some visibility on some contract level margins with the number of clients, but of course they're not covering your brand overheads declines and of course they are not covering a sense of cost, et cetera. They're basically covering the onsite costs, I assume. So conceptually, how wide is the range of group margins, once you take into account full [inaudible] and central cost? If revenue had ended up 10% below or 10% above for Q1.

And secondly, on labor costs, if this becomes a theme in the US, what do you think is the best precedent for case study in terms of your track record? I'm thinking, the UK you're experiencing managing the implementation of the national living wage, it does look like you had significant margin pressure, but I do remember there was also a lot of like-for-like issues in the UK markets. What would you say is your track record and the ability to manage to potential significance labor cost increases?

Dominic Blakemore

Jaffar, thank you very much for those questions. If I take first and then maybe hand labor costs on to Karen. I mean, looking in terms of the mechanics on margin, you're absolutely right. We are doing a few things, we're obviously working hard with our clients to renegotiate contracts either to recover costs into units as you said, or costs plus our normal margin offered a smaller base, to protect that margin. We are working incredibly hard on in unit efficiencies and that's around labor flexibility, increased usage of CPUs so we are introducing some crates of food and labor flexibility and we've seen the rewards for that. And then of course, you know, we're working very hard on our overhead within sectors and above sectors within countries and region group. In all of that, the latter elements is that we do continue to have choices and likewise, even within our large forecast.

So if volumes are going to be sustained at lower levels for longer, we already know there are actions that we can take. And when we can take them that will contribute towards larger margin progress. And then as they get closer to historic margins at lower volume levels, if those volumes come back sooner, then we know we don't have to take those actions and it will come back with volume. And there's a tradeoff in the middle there, between the levels of ongoing government support, which is dramatically reduced at this point and when we take those actions. So that's really the mechanics as we see it.

When you talk about the sort of ranges of margins, I sort of prefer to think about that as a sector, that's all. Which is at best sort of benchmark globally, and which would be pre-country and region overhead. And right now we've got, you know, two of our five sectors, health care and DOR operating close to history levels. Now, both of those have been affected by the loss of retail, for West social distancing and the closure of retail outlets on those sides has been impacted. But we're managing to offset that with other initiatives. So we're pleased with the outcome there. If you look at the three other sectors, education has lost about a third of the margin from stop-start, containment measures impacting as well as there also some of the onsite retail. Particularly in the higher end space, but look, I think as we look forward, we recognize that most governments want to get children back at school and most universities and higher education institutions, you know, believe in the campus onsite experience. So we think there will be a natural volume recovery. There will be of the three other sectors, the one which is likely to recover CNS.

And then when we look at the other two, you know, the BNI margin, the industry sector has performed well as employees and clients have continued to operate on site. [inaudible] we've talked about previously, typically with the tech sector's financial services, and others has been much reduced. Now, that's where the choices remain on margin recovery and where we can take further action. Sports and leisure effectively has almost completely stopped at this point. And we're carrying a run rate of overhead within that, which will either get lifted by the volume recovery or we have other choices ahead of us. Now, that's really how we looked at it and therefore, there is to your point of plus or minus 10% of volumes, that's how we're thinking and planning quarter on quarter. You know, if the volume comes back, what do we need to do? If the volume doesn't, what do we need to do? And making sure that we're making those choices in the best interest of the medium-term business, rather than a quarterly margin progression. I hope that that's answered the question and just over to Karen on labor cost inflation.

Speaker

Thanks for the call, thank you.

Karen Witts

Thanks Dominic. And somehow what Dominic has actually described is pertinent to the way that we will now and do manage labor costs. We've got a strong track records of managing labor costs across the group. And over the last few years, we have seen increases in minimum wages, et cetera. So just in terms of managing any labor cost inflation in the US, then we'll do what we usually do, which is really kind of combination of pricing and efficiency. Of pricing conversations, our conversations are ongoing with our clients. And indeed have been, you know, a real part of the conversations that we've been having as we've gone through the pandemic. And we have renegotiated contracts. So we will continue to have pricing conversations with clients. The other element is efficiency and some of the work that we've been doing again across the group to manage the pressures of COVID, actually put us in a good place going forward with regard to efficiency. So the work that we're doing on labor flexibility, on digital innovation and automation. The labor model in the US is quite flexible one, we can move in a nutshell away to demand up [inaudible] where that's appropriate. And I think we've seen that again throughout this pandemic period, where, you know, we moved a lot of people at the start of the pandemic and you see that coming through in the current margins that we've got in the US.

We also, you know, half of our clients want this, we have things like [inaudible], cashier less elements to our offer, unmanned innovation, particularly in our canteen and vending sector. There's a combination of all those things, the place thing, and the efficiency that helps us manage the labor cost.

Speaker

Thank you very much.

Dominic Blakemore

And if I may just add to that, just in terms of precedent, the pre day Karen. The national living wage in UK was around the time when we have more P&L contracts in the UK that did affect volume. I think the greatest, the best precedent really is North America, where we have the Obamacare legislation that managed to recover all of that cost inflation through either cost plus or efficiencies as well. So I think the track record is there and we know what we need to do.

Speaker

Super. That makes sense. Thank you very much.

Operator

Thank you. We will now take our next question from Richard Clarke from Bernstein. Please go ahead, your line is open.

Richard Clarke

Good morning, thanks for taking the questions. Three if I may. Just on your flat volume assumption into Q2, I'm just wondering what you're kind of assuming in there on education re-openings. Given we've seen a little bit of good news in the US, I mean, news are another state has opened their schools. Is that feeding in fair? And then we've seen basketball let fans in as well. So could this give you some upside or is it too small to move the needle? Second question's on food, by how our volumes through food by working, what does that do to your food costs this year? Is that having an impact? Slowing an impact on your margin? And then third question, maybe a little bit sort of try it, but your margin range of 50 basis points for Q2 is quite wide by historical compass standards. And in the Q1 you were able to give a quite specific guidance of 2. 5%. What will kind of determine which end of that range you're hitting Q2?

Dominic Blakemore

Yeah, let me take the first and third questions and then pass the three points volume question answer to Karen. Yeah, just with regard to the volumes in Q2, look, we're already a month through, and that obviously informs the guidance we've given. In UK and Europe, we think we're unlikely to see any sort of material school re-openings that moves the needle before the summer term. They'll obviously well I hope for about the summertime. We are more weighted to higher edge in North America, and it does appear that the second semester is going to continue either as virtual or hybrid and those trends and trends will continue. And so, really what we might see in sort of K312, the lower edge space in North America is [inaudible] for us. And I think, you know, the trial events that we're seeing are positive in sports and energy, because we really want to see what ways through this, where fans in stadia can open safely. But again, our expectation is that we won't see anything significant until the second half of the year.

On the margin range, a good question. 50 to 100 bips, we'd like to think we'll be firmly and solidly within that range if the volume environment that we've called today plays out. I think the caution and the conservatism is obviously asleep, if things were to turn down any more than we're seeing. Which, you know, look given that we're into the second wave containment measures, hopefully feels unlikely. But I think it's right and proper for us to remain cautious at this point. But if the environment plays out as we see it, and the action plans in place will be firmly and strongly within that range. Karen, over to you on three points.

Karen Witts

Thanks Richard. Well, in fact, I would say, you know, we've actually seen on being managing the impacts and sit by over these last months because we're clearly operating with much lower volumes going through the system. And the way that we're managing the food cost, to maintain our food cost benefit, is through fewer sws. We can do that through compliance or through menu simplification. We also have got increasing external Foodbuy client base, in instant resilient sectors. So really not, you know, an improvement in some areas in the third-party element of Foodbuy. And we worked well with our suppliers and we've got long-term relationships with them and we haven't seen a deterioration in the levels of some purchasing income that we've been achieving.

Richard Clarke

Great, if I can just ask for one quick clarification, obviously you're giving us the Q1 to Q2 margin. Is there any difference in a normal year between Q1 and Q2 margin?

Dominic Blakemore

Just on seasonality. I think our first quarter is typically—well, the first quarter and second quarter and first half are typically I think 10, 20 bits ahead of the second half. So there is a touch of seasonality in there for us. Obviously, it's the second half has the summer months. But, you know, at this point, given the actions that we're coming from, we don't really see seasonality as being a factor in there, in the pace of the margin progression.

Richard Clarke

Thank you.

Operator

Thank you. As a reminder, if you'd like to ask a question, please do so now by pressing star one on your telephones. That's star one, if you'd like to ask a question. We will now take our next question from Leo Carrington from Credit Suisse. Please go ahead, your line is open.

Leo Carrington

Good morning, thank you for taking my question. A few from me, firstly, on the competitive landscape. I think there's been a surprising or in my view, surprising lack of visible strain in contract catering companies. But I did hear comments from the US that competition is increasing in schools as BNI operators or other operators shift that focus. Is that something you've seen, and can you perhaps offer some comments on what you're seeing in terms of competition? Secondly, just another one on the margin progression, the most significant sequential improvement that's been in Europe. Can you just help us understand why and if Europe, the main source of the further margin progression you're expecting for Q2? And then lastly [inaudible] or, you know, solid sequential revenue improvements, is this new contract ramping up or extra scope on old contracts? And then, more broadly, you've called out at full year and again, now DOR[?] having a particularly good pipeline. Is this better market activity or improves competitiveness from yourselves? Thank you.

Dominic Blakemore

Leo, thank you for those questions. Again, I'll take the first and third and then hand over the European Margin question to Karen. Look on the competitive landscape, I don't think we are seeing that entry of new players into other sectors or spaces. In fact, I'd argue the reverse, you know, what we're seeing in our conversations with clients is they want proven best in class, best in sector operators. You know, again, given the experience of COVID. And I think that's really pertinent to this sort of non BNI sectors.

So, you know, again, just reflecting on what that means in health care, it's proven processes. It's being able to protect our employees in those environments. It's being able to offer more frequent and broader hygiene and disinfection services. So I think that rules out non-sector expert players. In education, we've seen that uptick for demand in competence around hygiene process and PPE protection. Which again we have as a business, and other players don't.

And then within DOR, there's been quite a lot of change because obviously you're managing entire communities in remote locations. Whether it's defense or it's the mineral sector and there's, there's a need there for the expertise that we bring by sector. So, you know, we actually believe that this point, sectorization, sub-sectorization, sort of family of expert brands plays very strongly into the needs of our clients. And I think it's more difficult for a generalist player to switch sectors and try to compete on price at this point. So I think I describe at the moment that is very much about quality and capability. And as we said on separate occasions that flight to trust then. I think that's what's showing up in our retention and new business.

Just answering the question on DOR[?] and yes, we are very pleased with the "improvement" and you’re right, it's a number of factors. So we have—we want a substantial piece of business in Australia with BHP, which has been rolled out across their states and that's benefiting the numbers. We won significant business in [inaudible] that's right rolling the mineral companies have continued to produce strongly in a strong market for them, which has meant production volumes are high. The POB, people on board as they called it, is high and we need to service those volumes that's positive. But also, rather than the sort of traditional canteen or restaurant service, which would be a buffet, it's now about box meals and table service. Which means the sort of more value in it for us. So it's a number of factors that are driving that and that good pipeline is a cross sort of defense offshore and remote, so it's sort of all of the sub sectors and particularly within the rest of the world. But, you know, as I said earlier, it's sort of you seeing good opportunities in all sectors in rest of world right now. Karen, over to you for the margin in Europe question.

Karen Witts

Thank you, Dominic. So what we're seeing in terms of margin in Europe is really a combination of two factors. The first is that Europe has experienced the most protracted and restricted containment measures. I mean, for all of us sitting here in the UK, we can see that and we can feel that. In terms of the recovery, the actions that we're taking to recover in Europe are exactly the same as for the rest of the group. So working on contract renegotiations, working on labor flexibility unlike sizing and working on general costs and food costs. But it's taken us a bit longer to resize in Europe, given first of all, the multiple countries that are involved. And secondly, the tighter labor laws. So you remember that we did some right-sizing at the end of last year in North America, and last time. And we did that because we have the flexibility to move very quickly there. It takes a bit longer in Europe, so you're just starting to see the benefits coming through this quarter.

Leo Carrington

Perfect, thank you very much.

Operator

Thank you. We will now take our next question from Vicki Stern from Barclays. Please go ahead, your line is open.

Vicki Stern

Morning. Just coming back on the net new business wins, obviously we've talked with a lot of confidence there about their high retention rates and the patient signings. And you've explained why clearly it's to see that coming through the numbers currently. So two questions really, just in terms of your perception of what that pace means. In terms of signings, you think that's consistent with the prior levels of net new business, sort of 3% per annum as we get into that as you see in the contribution from those contracts or sort of better or worse than those prior levels? Just so we can understand that. Because it's obviously hard to see in the numbers today.

And then, sort of related to that, when should we start to see the benefit? That really just went from when we started last the comps and, you know, work off different base. And then just secondly, on contract renegotiations, just obviously this is only a path of the cost cutting measures and how you're getting margins up. But obviously some of those are short-term discussions, could you just help us understand how much of that is a sort of long-term contract renegotiation today, and how much of that is you're going to need to go back on this contract in six, 12 months' time, just sort of set terms for the future? Thanks.

Dominic Blakemore

Thanks Vicki, good morning. If I take the growth question and then Karen can do the contract renegotiations. Yeah, look, it's tricky, isn't it? Because of how the calculations are done to actually see, to see the trends. You know, retention is a clear calculation, so it's pre COVID volumes lost over pre COVID total group volumes. And so it's just sort of pure calculation in this quarter. And as we start to lapse the pandemic, it will then be sort of post COVID volumes lost over post COVID total group volumes. So retention will remain, I think, a pure life flying measure that we can look at. And, you know, as we said today at 95. 78, it's 60 bits better than last year and close to a point better than the historic average. And so if we can sustain that, now that will be positive for net new and obviously we would never declare that you have to report that, it's a good start, right?

On the new business, I mean, we measure it internally on what would be pre COVID volumes. And so we know what the value of the contracts we've won in the first quarter is, compared to the value of contracts we would have won in a pre COVID. Well, then, you know, it looks very positive and comparable to those levels. So that should in principle mean that we would be able to see a return to the net new levels that we enjoyed previously. Obviously, the challenge for that is, a number of those contracts will be delayed for opening and a number of those contracts when they are opening, they're opening in sort of new world volumes. And we'll either see within the first 12 months the volumes recover and that will focus on new business or we'll see them and annualize and then flow through likes. So I think the net new measure is going to be a bit muddy to navigate for a while yet until we've truly lapped to the 12 months of the crisis. And we'll do everything we can to sort of pull out that trend, particularly as we get to the half year so that we can show you how we're doing. But, you know, in old money as it were, it feels good. I mean, the absolute number contracts that we're winning, it feels good. But again, you know, this is only a quarter and we came to see how we perform as we get to the half and beyond. Karen, over to you on the contract renegotiation.

Karen Witts

Hello Vicki, in terms of overall portfolio of contract, the profile hasn't really changed over this pandemic fees. So we're still about a third, a third, a third in terms of costs, plus fixed price and PNL. And so by implication, that does actually mean that the conversations that we're having with our clients are temporary measures. I think that works for us and it works for them. And the focus that we have been having up until now is very much on ensuring that where pre-sites are open and sometimes where they're not open, that we work with clients to make sure that we're passing through costs. We are also getting some more permanent benefits just in terms of particularly in North America, extension of length of contract. And we might see that in the sports and leisure sector where that's completely inactive at the moment. So we're working with clients to extend the length of the contract that we are really very happy with the support that we're getting from clients, just now. And we do recognize that contract renegotiation is ongoing. It's like that's very helpful for us and there was a question earlier about inflation and actually helps to make sure that if there are inflationary pressures they're getting passed on to.

Vicki Stern

Great, thanks very much.

Dominic Blakemore

Just to add one comment there. I think what it also demonstrates is the sorts of the weights of pressure on the operations of the business. You know, this isn't a silver bullet and it's done once. We need to be thoughtful about how we did it. Best in the context of maintaining strong crime relationships. And everybody wants to see the volumes come back and the old structures in place. We need to make sure we balance sort of being fairly treated in the short term with a strong client relationship and where we expect to be at the time. And that means it's, you know, it's constant assets. Which I think we're very well placed to do and very well disciplined to do.

Vicki Stern

Thank you.

Operator

Thank you. We will now take our next question from Andre Juillard from Deutsche Bank. Please go ahead, your line is open.

Andre Juillard

Good morning everyone and thank you for taking my question. A few questions if I may, more qualitative than quantitative. If you look at the landscape and your main competitor, especially local and regional player. Do you see any player being in difficulty and explaining part of your market share growth? First question. Second question is about your clients and especially on the BNI and sports segment. Do you see their request and I'm still talking about qualitative, evaluating for the next few years? And do they more talk about digital evolution and things really changing about the way they ask you to provide your service? Second question, and regarding the pricing program. This is a kind of follow-up about your last question. Do you see any evolution on your pricing power, your capability to reflect the evolution of the food price and so on? Thank you.

Dominic Blakemore

Thank you, Andre. Let me take those. So first of all, with regard to the landscape, look, all I can say is that in the first instance, we believed that bidding processes are happening with greater discipline. We think that's positive, in the use of CapEx and the costs at service. Yes, we do see a number of players that are past finding the circumstances challenging. You know, as I said before, if you are a dedicated BNI or sports and leisure sector player, then right now you don't have the breadth of portfolio like ourselves, where you've got two sectors which are in the 40% of the business which is performing as it were before and is able to help manage the overall costs of operation. So yes, we are seeing that, and we may well see consolidation in the sector as a result.

With regards to the B&I, sports and leisure and their requests, you know, what we find in, remember our manufacturing clients is still largely operational. So the conversations that we're having with the industry clients is about how do we operate safely with the right protocols? And if some of those protocols have to stay for longer, what does that look like? So the focus there is very sort of pragmatic about the operation. Within BNI and sports and leisure, the conversation is probably as you would expect. Sort of within the B, it's about, you know, what does the workplaces the future look like? And what role does hospitality and catering have to play in that? How do we operate safely? What does it mean in terms of the numbers of people that can congregate within particular spaces? And therefore, how do we use our footprint within their office space differently? And that absolutely does mean there's a greater emphasis on digital desk delivery and personalization. And that is coming through very loud and clear in the bits that we are seeing.

I'd also say there's an uptick of interest within sort of health and wellness, and sort of everything. Again, we've learned about maintaining appropriate diets for the wider health implications. And I think again, those give us the opportunity to differentiate ourselves with our clients. In sports and leisure, it's about how do we deliver great experiences with the right price structure to potentially smaller attendance levels or steps changes in attendance levels? So look, if we go back to 2000 then 5,000, then 25% then 50% of capacity, what does that offer look like? Then those who are all ongoing conversations with current as well as prospective clients.

So, you know, some different things happening there, and that's where some of the broader expertise as a business can really help us out. And then on pricing, apparently evolution of pricing power, I think it's fair to say we've always managed food and labor cost inflation reasonably well through that combination of contract protections that we've got. Either in cost plus or PNL where we control the shelf price and the efficiencies. And we'll continue to look for efficiencies and one of the benefits of the experience we've had here is that we're introducing greater flexibility to labor and food. That hopefully gives us the efficiency to deal with what can't be passed on.

Having said all of that, I think there's a greater understanding of the importance of our services in many of our sectors and therefore, you know, potentially a fairer hearing on pricing and negotiations than we've seen before. So I think it was a combination of factors applied there, but I don't believe in anyways having been detrimental to our pricing power.

Andre Juillard

Thank you. Just maybe a follow-up question on the BNI segment. Do you have some requests from corporates asking you to deliver some more food meal directly to their employees when they are working from home? Is it something which is not substantial at the moment?

Dominic Blakemore

I mean, we have had I would say the margin and I don't think that it has significantly grown as we've kind of experienced longer lockdowns. The one comment I would make on B&I is, it's the longer this persists, the more I hear increased desire from our clients to be back in the workplace and to the workplace to be valued in a different way by everyone. Now that may not mean, you know, back to the levels of attendance we experienced before, but certainly that the workplace is important and plays an important part in the balance of our lives. And so, you know, we quantified the work from home risk. But as we navigate our way through this, I think there's a degree of optimism about the role of the office as we go forward and our role within it.

Andre Juillard

Okay, thank you.

Operator

Thank you. We will now take our next question from Stuart Gordon from Barenberg. Please go ahead, your line is open.

Stuart Gordon

Good morning. Just probably same question in two parts. In terms of the cash flow, just looking for an update on how that is going in terms of cash burn. And also in terms of contract wins and the pipeline, how do you see, the CapEx for that unfolding through the year? Because I would imagine that the initial costs that you may incur will not be necessarily representative of the anticipated volumes that you've got. And then as the second part in the cash flow, obviously, does the way things are going in terms of the margin give you increasing confidence to use the cash that you built up last year with the capital increase for investing in the business as we move through hopefully the tail end of the pandemic?

Dominic Blakemore

Karen, I think those are firmly and squarely with you.

Stuart Gordon

Thank you.

Karen Witts

Thanks Dominic, okay, all right. Well, we're not actually updating on cash flow until the half year but what we did say in November with our full year results was that, as we've got two positive operating margins then we had had stemmed the cash burn that we were seeing. And also at the half year, when the commented on our cash, we said that we had done particularly well on collections and reducing day sales, outstanding in a way that we felt that we could continue. We are continuing to win new business as Dominic has explained and we believe that, in certain instances, CapEx is a really valuable part of winning that new business. We see that particularly in North America, where CapEx gets deployed into typically larger contracts and contracts that are of a longer length, than in contracts where CapEx isn't deployed.

In North America, a rapid contract length is these seven to eight years. We have said, that because we're going to continue to invest, because we are still winning new business, CapEx for the half year should be at a group level in the region of 352 to 400 million. Though a lot of that is actually CapEx that was committed in prior periods, when we signed new business. And we are waiting for the new business to open. When we're working with clients on new bits and tenders for new business, you know, we are still prepared to put CapEx into those contracts. Clearly, we work with our own internal hurdle rates and making sure that the CapEx that we're investing helps to support our own long term, Rocky. It may be that volumes are a bit suppressed in the short term, but working with clients, we are also finding some opportunities, two weeks a bit before the CapEx is deployed until some of the volumes are coming back.

And then on your third question, just in terms of whether or not we've got confidence to use the cash that we've built up. Absolutely. You know, it was thought through a deliberate part of our strategy to create balance sheet resilience so that we could use that, the resilience, and the means within that balance sheet to take advantage of our competitive position, whether that was from the CapEx that I just described, or—and I think we've discussed this earlier on the call, whether it might be from M&A opportunities, that's when they come along.

Stuart Gordon

Thank you very much.

Operator

Thank you. We will now take our final question from Kean Marden from Jeffries. Please go ahead, your line is open.

Kean Marden

Morning all, three very quick ones from me. Would you mind sharing what's government furlough, the impact on government furlough schemes, the benefit was to the EBIT line in the first quarter please? And whether that all drops away in Q2. Secondly, some US universities at the moment are cancelling spring break. Would that have any potential tailwinds to your business in March? Or is the fact that most sites are remotes or hybrids mean that would be the case? And then finally, I've got a few IBE messages from clients just trying to nail down the Q2 organic revenue growth guidance. So is the right way to think about this, that on a pre COVID basis, organic revenue growth down about a third, but the COVID impact on the business in the first quarter of last year was about seven percentage points or concentrated in the last couple of weeks in March. And therefore when we see the numbers that you print out for the second quarter, it will be more like sort of 26%, 27% instead? Thanks.

Dominic Blakemore

Karen, if you could do the government furlough and the organic growth points and then just on the university's point Keene. Yeah, look, I think we're hearing across some of the education estate plans to try and catch up some of the lost teaching time. We've heard plans mooted in national education systems in certain countries, and that might either be through summer schools, or it might be through spring break. That would obviously only be a benefit to us if it continues on campus on sites physical teaching. But yes, that could be a potential benefit, but certainly not something that we're building into our numbers at this point until there's greater clarity. Karen, over to you on the others.

Karen Witts

Thanks, will do. Just in terms of the government support that we are receiving, have received. In quarter one, it was just about 50 million pounds of government support, and that is now really concentrated in Europe. Any other government support is pretty much tailed away, we see that reducing to something more like 40 million pounds in quarter two and then our current line of sight has it peeling off very, very significantly [inaudible]. There's one or two countries in continental Europe that have committed to a bit more support going out further. But what we tend to see is, that governments will communicate what they're going to do in terms of support about a quarter out. And obviously this is very dependent on the external environment. But, you know, we understand in that to get back to our historic margins, that means that we've got to move off of government support, and we've got to get the business in the right size for the long-term revenues and then long-term volumes that we're going to be seeing. So the 50 million quarter one, but 40 million quarter two and probably a lot less thereafter.

And then your question around nailing down quarter two organic revenue guidance. I mean, we, you know, I'll just reiterate this is uncertain. We are living in uncertain times and we think that the volumes and the revenue in quarter two could be similar to the volumes and revenues that were in quarter one. But the point that you make around what we saw in March last year, and therefore the impact that might have on organic revenue guidance. So in terms of arithmetic, yeah, understand the arithmetic.

Kean Marden

Thank you very much.

Operator

Thank you. That will conclude the test, the questions for today's session. I will now turn the call back to your host for closing remarks.

Dominic Blakemore

Just let me say thank you all very much for joining us today. And we look forward to speaking to you in at the half year in May. Thank you, have a good day.

Operator

Ladies and gentlemen, that will conclude today's call. And you may now all disconnect.