Welcome to the Compass Group PLC half-year results question-and-answer session. Hosting today’s call, Dominic Blakemore, group chief executive.

Dominic Blakemore:
Thank you very much. Good morning, and thank you for dialing in. As usual, I'm joined by Karen Witts, our CFO. I'm sure you've read this morning's half-year statement. Before opening the call to questions, I'd like to say a few words on our performance and outlook. Although our business continued to be impacted by the pandemic, during the first half of this financial year we delivered continued margin progression, strong cash flow and excellent client retention. At the end of March, we were trading at 71% of 2019 revenues. Performance across both quarters was broadly unchanged. In B&I, industry volumes were more resilient. Our business was affected by widespread working from home. Sports & Leisure remained mostly closed, although the sector benefited from a few events at the end of the period. Higher education, particularly in North America, improved in the second quarter as university campuses reopened in January. Defense, offshore and remote has been resilient. We saw a strong performance in our healthcare and senior living sector. By controlling the controllable, we improved margins quarter on quarter across all regions. In Q2, we recovered more than half of our operating margin of 4.2%. This is 20 basis points ahead of our Q2 pre-close trading update – a 150 basis points improvement on Q1. As a reminder, our margin was minus 6% at the lowest point. Over the last six months, we've seen strong first-time outsourcing momentum, with a continued flight to trust. New business wins were up close to 20% over 2019, with first-time outsourcing now accounting for 50% of the value, up from the historic 30%. This acceleration in wins, combined with a 60bps improvement in retention, correlates to a potential increase in net new – of some 2%. Because of our strong financial foundation, we've continued to invest in growth. So we innovate our offering to evolve our operating model. We remain disciplined about bolt-on M&A to gain further sector exposure for additional capability. In the next few months, we look forward to welcoming our consumers back. As sites reopen, we mobilize new business with an unrelenting focus on health and safety. Although the vaccination rollout is under way, the pace
of volume recovery remains uncertain. We expect Q3 revenues to recover slightly over Q2. The Q3 margin is, however, expected to be between 4.5 and 5% as we absorb a big quarter of reopening costs, but still make further margin progress. We remain confident about our ability to return to a group margin above 7%, before we return to pre-COVID volumes.

In summary, we've recovered more than half of our margin in Q2 and expect further progress in Q3. We're really excited about the significant structural growth opportunities and the dynamic outsourcing market. New business wins are up close to 20% over 2019, giving us further portfolio diversification across sectors and regions. These exciting growth opportunities, combined with innovation and a more efficient operating model, will help us emerge from the pandemic stronger than we've ever been and will allow us to further consolidate our position as the industry leader in food services. We'll update the market again on 29th July. Thank you, and now we're very happy to take any questions.

Bilal Aziz - UBS:
Good morning, everyone. Thank you very much for taking my question. Just three for me, please. So, firstly, just on the rate of net new business wins. You've previously talked about confidence in getting back to 3% net new wins. It feels like you're now confident that could be 5%. Just keen to hear what you think the sustainability of that trend could be into the mid-term, potentially regards to your retention rate, which could be helped right now as well. Just on the revenue guidance, with gradual improvement expected now, any color you can potentially give us for volumes into April/early May, please, just to get a sense of the pace on improvement you think is likely, particularly in education, where one of your competitors perhaps is a bit more optimistic into the forward. And then finally, just on CAPEX, your guidance 400 million in the second half. With this rate of new business wins, you have to be thinking about the mid-term capital intensity of your business, versus the usual 3.5% gross CAPEX do you? Thank you very much.

Dominic Blakemore:
Thanks, Bilal, for those. I'll take the first two and then – and then hand over to Karen. Look, first of all, in terms of the rate of new business wins and what we're seeing versus what we may expect over time, I mean, first of all, it's very, very positive. You know, in 2019 we had new business wins in the first half of around 850 million. That's now closer to 1.1 billion in this first
half-year. So it is very exciting. As you you've heard us say today, it is coming more from first-time outsourcing, but we are winning across the piece against our larger competitors, as well as the small regional players. And, you know, as we said several times, we do believe that that is around a flight to trust and the quality of services and processes that we can provide at this uncertain time. Obviously, that new business will mobilize over time and the volumes will ramp up over time, just as we see with our existing business, so we won't necessarily immediately see it through net new and we will see some of that benefit coming through volume over time as well. All I can say really about the medium term is, look, the pipeline looks equally positive, and it has has an equal weighting toward first-time outsourcing, which is the most rewarding part of our new business portfolio, where we can reward the client with the most savings and we can deliver the best economics for Compass as well. So, you know, that does look positive. And on retention, you know, we're seeing an improvement in retention now. And of course there will be an element there that some processes aren't being run, they're being deferred. But what we've also done through this is extend out contract terms with many clients as parts of our negotiations. So, as an example, I reviewed our UK Sports & Leisure portfolio, and in the average we've added somewhere between two and three years to that portfolio through the downturn, and that gives us real confidence around future retention. So hopefully give you – that gives you a little bit of color. Volume guidance – I mean, really, by sector as we look forward is probably the best to give you. If we look at both healthcare and defense/offshore/remote – if you look at both Healthcare and Defence, offshore and remote in the statement today, our volumes are up sort of 5 to 9% in those two sectors over the equivalent to 2019. So that's very positive for us. And of course, you know, the healthcare sector performance is being driven by mobilization of net new. We're not yet seeing a return to retail when we see elective surgery coming back in. So, you know, we think there is a positive trajectory within the healthcare sector. The defense/offshore/remote sector is looking robust and positive, as we see strong commodity prices drive production and demand for our services. So that feels good. In terms of three core sectors most affected, I think education was back to just over 70% in Q2. You know, we are going into a northern hemisphere summer now, so, you know, we may make a little bit more progress before schools and universities break, but it’s likely to be in September that we see any significant uptick. We are hearing that most academics and most students want an on-campus experience and the demand is high, but we will really only be able to see that as we get through the summer and we talk to our clients. But yes, we do expect that, you know, return to school in September will be strong. In Sports & Leisure we're at about a third of our activity levels today, so we catered for the O2 and we're
seeing football matches start to open up, but at muted volumes, until we really see the tipping point in the UK and US on 21st June and 4th July. At that point, we expect to see volumes grow progressively over time. And again, I would expect to see that sort of improving toward the end of our financial year and into the beginning of our next financial year at any degree of scale. And then we’ve B&I, which is, you know, a significant delta for us. I think it’s important to say, in May, we’re pretty much opening all of our B&I sites. I’ve spoken in the last few days to our managing directors in Australia Restaurant Associates in London, in New York and on the west coast. And, you know, we are seeing a wide-scale reopening of sites. At this point, we’re still seeing those at low volume. You know, I talked to a few CEOs yesterday. You know, we’re looking at sort of 20% to 30% volumes in the near term. So I think that’s why you’re not seeing a massive pickup in volumes in the quarter, but actually, as we get into the fourth quarter – and it’ll be muted because of summer. I think September becomes a big month for back-to-school reasons. And of course, you know, the first quarter of the – our next financial year, the last quarter of this calendar year, I think will be when we see the – sort of the biggest return to the new normal, as it were. So volumes will be phased. What we're having to do is put costs back in in this quarter, as every site gets opened, you know, we need – we need the minimum teams there. We need to bring people back early. We need to retrain them. You know, we've got a less efficient food offer, and so we're having to absorb that level of reopening costs and, as I said in the opening, continue to make margin progress.

So, sorry, pretty long answers there, but I think they go to the heart of a lot of what many of you will be interested in, so over to Karen on CAPEX.

Karen Witts:
Thanks very much, Dominic. Hi, Bilal, and thanks for your question on CAPEX. So we continue to believe that CAPEX is a really important tool for us. Where we deploy CAPEX – so we do deploy it judiciously – we see that we get longer and larger contracts. And it's important tool both in terms of new business and then retention. In the medium time, the 3.5% of revenue looks, you know, broadly okay. But I think the important thing to remember is that, you know, we have the means to deploy CAPEX and we will take up opportunities as we see them. If it's a good opportunity, of course we'll deploy CAPEX into it. And just to say that we perform regular post-investment reviews just to test the returns that we’re getting on our CAPEX, and I’m pleased to say that those returns remain very strong.
Dominic Blakemore:
And I think, Bilal, just to add to that, you know, one of the purposes of our raise of last year was to give us that financial flexibility to invest in opportunities. You know, as you've heard us say today, those opportunities are there. We want to prosecute them, and we want to build back our scale and accelerate our growth. So we – you know, as long as the economics are right, as Karen described them, absolutely the right thing for us to do.

Bilal Aziz:
That's very clear. Thank you very much.

Jamie Rollo – Morgan Stanley:
Thanks. Good morning. First question was just coming back on the good numbers you've given on the new business wins. That's helpful to quantify it, from 850 million to 1.1 billion. So that extra 250 million is about 1% to annual sales. Is that the sort of case we can think of that continuing, or do you think there may have been some sort of pulling forwards of outsourcing, as suggested by one of your competitors yesterday, and that actually maybe the pace of outsourcing unusually high, just because of the very difficult COVID environment, and it could slow, or could that pace sort of continue? And also, if we look at the mix on slide 33, it's a bit more skewed to Europe and healthcare. I'm just wondering if there's any sort of margin implications from that or whether those should be roughly in line with the rest of the group. And then the other question was just on margins. What are you sort of seeing on cost pressures on both food and labor side, and how easy is it to pass those on? Thank you.

Dominic Blakemore:
Thanks Jamie, and good morning. I hope you're well. I'll hand the margin question to Karen and tackle the first two. Yeah, I mean, look, we're – I've said it already. We're very pleased with the new business wins. You said 1% annually. You know, absolutely, but remember that's a six-month measure. So, you know, if it continues like that, it could be slightly more positive. But I don't want to be too positive. I think, you know, to strike a note of caution, you know, look, we've seen very buoyant activity. You know, is that sustainable over years? I think it's too early for us to tell. What we can say is, you know, the pipeline is positive, and that pipeline supports the second half of this year and our progress into the next financial year. So certainly, you know, for that period of time, we look forward with cautious optimism on the pace of this. And
we also believe, I mean, look, you know, you have to remember, with first-time outsourcing it is about to what extent you unlock that opportunity. And, you know, we've very focused now that the conditions are right and clients are very interested in outsourcing, for all the reasons we've described, and not least the financial pressures some of them are under. So the conditions are right for them. You know, we need to make that happen, and we'll focus on that by putting capabilities and resources in the right place to deliver it. So it's a great start. We know we need to do more. We think the opportunity's there. Let's see how we go.

In terms of margins, I mean, first of all, in terms is the diversification, we're really pleased with the – both the wins and retentions we're seeing in Europe. You know, we know we need to do better there and, you know, it's only six months, but the indications are positive. And particularly positive is the increase in first-time outsourcing, which has typically been lower in that region. So we are pleased with that. In both Europe and healthcare, the margins are at, or around historic levels, so it's not that they're going to result in any dilution. We're very pleased with what we're seeing there. And in particular with healthcare, where our healthcare sector margins have always been above the average, and particularly, you know, where we've got the built-in support services capability, which is even more important to winning in that sector right now.

Karen.

Karen Witts:
Oh, thanks. Hi, Jamie. So, just with regards to inflation, in terms of food inflation we are seeing a bit of an increase in the US, more than we are in the UK. Food inflation is something that we're very used to dealing with. It's pretty much within our control, and we can help to mitigate the increases by managing the menus, replacing expensive items, portion control, food waste reduction etc. And the rest can be passed on generally as part of our contract renegotiation. I think labor inflation also looks as if it's a bit higher than we have seen, but over the last year we've done a lot of work on managing our labor and increasing flexibility and increasing use of automation. So the work that we've been doing in the digital environment has helped us to deploy more cashless solutions, for instance to a client base. And you heard us talk about the systems that we use – Bench in the US and Constellation in the UK – which help us to deploy labor more effectively and we don't have wasted hours from a labor perspective. And probably just sort of quote back to you – I was watching your podcasts at the – at the end of last week, and, you know, you said yourself that, you know, we believe that we provide what is an
essential service to our clients. And our commercial models are actually pretty well set up to pass on inflation where we can’t mitigate it ourselves. But I hope you’ve heard from what I said that we actually have the tools to mitigate a fair amount of what we see in any case.

**Jamie Rollo:**
Inflation?

**Karen Witts:**
Yes, sure. So we think, from a food inflation perspective, what we’re seeing at a group level is about 3.4%. That’s primarily driven by North America, where it’s more like 3.5, 3.6%. And labor inflation’s running at about 4%, again driven by the North American market, which is 4.5, 4.6%.

**Dominic Blakemore:**
And Jamie, just as you know, I mean, whilst on the one hand we need to mitigate this, it also is one of the reasons that it can accelerate and unlock first-time outsourcing where clients really struggle themselves to manage this, and particularly where I think there’s going to be significant pressure on deployment and recruitment of front-line labor in North America. So we think, that you know your three questions are all interconnected in that, you know, inflation could well be a tailwind for accelerating outsourcing.

**Jamie Rollo:**
Thank you very much.

**Leo Carrington – Credit Suisse:**
Good morning. Thank you. Could I ask a few questions on the – on the new business wins? You mentioned, Dominic, vending as driving new business in North America. Is this reflective of new clients trying to adapt their offering away from a traditional kitchen-led offer? And, on that topic, can you perhaps give some quantification on how the new businesses such as Feeder, Eclub and Food Works have been performing in new tenders? And then, secondly, in the presentation also – the opportunity and delivery was specifically mentioned. Is this because you’re actually seeing a growing opportunity in delivery for you? Or is it more tackling what is happening with competitors and in other parts of the market? And can I just check, is delivery still mostly relevant to the office catering market for you?
Dominic Blakemore:

Thank you very much for those questions. There’s a few in there. I mean, first of all, just to give some color on the new business wins, we absolutely called out vending, but again, just one fact on North America growth. Our top five new business wins in North America are all first-time outsourcing. So, you know, that trend we’re seeing across the piece. With regard to vending, I mean, we’re doing well there. And actually, you know, what we’ve seen is there are a number of clients that have continued to operate through the pandemic in distribution centers and in manufacturing, where vending is very important part of that offer. So it isn’t necessarily cannibalization of existing business. It is incremental new business, and we’ve all seen how the food delivery companies and online retail companies have boomed. Obviously that is a sub-sector of the ‘I’ of B&I for us that has been positive. When you talk about, you know, is it new clients adapting, that's absolutely the case as well. I mean, we talk about putting a flexible food offer in. It's going to be less reliant on the traditional kitchen and restaurant. It will be delivered-in solutions like Food Works. It will be vending alternatives. It will be grab and go on the client side. And, you know, we talked a lot about how we're building that. In part, you're absolutely right: that needs to be defensive, and equally defensive against delivered-in competition, but also to ensure that we're providing the solutions that clients want, and particularly solutions that are relevant for all-day parts and not just the traditional mealtimes. But we also think it unlocks an incremental growth opportunity and, you know, that's where we talk about delivery. You know, it is giving us an opportunity to play into smaller accounts. That combination of our 70 central kitchens with the digital capabilities of Eclub and Feeder here in London, and we’re obviously building those out around the world, means that we can connect small groups of employees with, a variety of food offers through the delivery. And that we feel is an opportunity for us. And as you rightly say, it is predominantly offices. So, to one extent, it is providing more variety for existing clients, to another it's unlocking other channels of opportunity. It is about – it is about the office and university environment in particular, rather than delivery to home. And then finally, you know, progress with Feeder, Food Works and Eclub – I mean, we're very excited, they're playing a leading part in our tenders, particularly within higher Ed and B&I. It's an offer that clients are excited about and want. Of course, the rubber hits the road when we see volumes come back, and we'll see the growth in that business. But, you know, as of today, the aggregate of those types of businesses for us are delivering around £400 million of turnover. And again, we think that that is a sort of sub-channel that we can grow over time.
Leo Carrington:
Thank you very much.

Vicki Stern - Barclays:
Yeah, morning. Just firstly on the Q3 margins, you’re talking sort of margin around sort of 50, 60 bps higher than Q2, I guess, at the midpoint. But you’re also saying that that margin’s very much depressed by the fact that you’ve really got to mobilize and reopen a lot of sites, even though there’s not much volume coming back. Just any sort of quantification of sort of how much that suppression might be, or rather sort of what the underlying level you might be hitting already would be if it were not for that kind of short-term impact. And sort of related to that, obviously not asking you to kind of predict volume and progression quarter by quarter, but just as we look to next year, I think you really sort of touched on it, if that recovery does in earnest start from September onwards, how do we sort of triangulate your view that you can get margins back above 7% with sort of what next year could pan out at? How much is the sort of delay in getting that margin back to pre-COVID levels? And then just finally in terms of sort of dividends and cash return, what are the triggers you’re looking for now in terms of thinking about reinstating dividends and the cash returns, and any change in approach, perhaps with the relative attractiveness of M&A at this point or CAPEX? Thanks.

Dominic Blakemore:
Thank you, Vicky. If I do the volume and margin progression and hand over to Karen on Q3 margin mobilizations and dividends and cash. Just on that volume progression, you know, it's not a perfect world and, you know, it's difficult for us to predict. I mean, we're sitting here talking about September, and it's been a very - a very bumpy road, hasn't it? So, you know, the first thing to say is we're really pleased we've made the progress we've made. We're really pleased we're still making the progress that we're talking about in Q3, as we put costs back into the business. And of course what happens when volume comes back is we'll get leverage, but we'll need to put more costs back in as well. And, you know, we haven't got perfect line of sight of what that relationship is going to be. You know, we've obviously looked at various different scenarios, which gives us confidence on the 7% before the return to pre-pandemic volumes. But, you know, it will be a bit of a fistfight between all of the – you know, the measures we've taken around contract renegotiations and rightsizing and managing our overhead with the costs
we need to put in to reopen and build back the future model. We want to be judicious. You know, 7% is our ambition and first phase, but we also want to make sure that we're building the best possible business with sustainable margin that we can. So I think we'll – we will give you more color as we go through the quarters, but I think you know – you know our ambition.

Karen Witts:
You know, Vicki – and I don't really have anything more to say on the margin. I mean, the quantification of the mobilization costs is something that – that's really quite hard for us to forecast because the timing of openings and volumes coming back, as you keep hearing from us, is uncertain. I think the important thing here is that we always said that the margin progression would not be linear, and I think this is us saying it's unlikely to be linear over Q3. But nevertheless, it is going to be positive despite the fact that we'll have more costs than we would normally have. And just to reiterate our confidence in getting back to that 7% margin even before we get all of the volumes back. I think you heard from the earlier question that Dominic said, you know, our visibility is really going to come in the month of September, where we feel that we'll start to get something approaching the new normal. We'll have passed the two independence days and we'll have passed the summer holiday periods in the northern hemisphere. So we will be updating again at the end of July. And hopefully we can give you a bit more color on the margin then.

So if I turn now to the balance sheet, and your question was around the triggers to reinstate the dividend. So, first thing I would say is that we do understand that, that the dividend is important to some, or to many, and it's something that the board keeps under review. The board believed that it wasn't appropriate to do anything other than keep the dividend suspended for now, but we will update again at the end of the year. Now, where are we at the moment in terms of the – kind of the balance sheet metrics? Probably the one to really point out is that, as predicted, we're at our high point from a net debt to EBITDA perspective. So we're currently at 3x net debt to EBITDA, when we have a target gearing ratio of 1 to 1.5x. And we really do believe that this is us at our peak, because the way that the metric is calculated is that you've got a trailing 12-month EBITDA. So you've really got all of the worst of COVID impact sitting in that EBITDA. So we feel that we are on the point to recovery, but we don't know how long recovery is going to take. What we can say is that, if we hadn't raised equity, it would take a lot longer than we're envisaging to actually get back to the kinds of metrics that would allow us to pay a dividend.

You know, just going back to some of the points that have been made around CAPEX, we really
do want to stick to the principles of our capital allocation methodology. Investing in CAPEX for growth is really important to us, and we think this is a good point in time to use the strength of our balance sheet to take advantage of opportunities that are in the marketplace. Similarly, we feel that we’re well poised to embark on M&A, and we’ve been looking at lots of opportunities to date, but we do deploy our means very, very carefully, and, you know, we want to make sure that any M&A that we do is actually going to deliver shareholder value for us. So we haven’t actually spent anything on M&A in this half of the year, but we are actively looking out for opportunity in that area.

**Vicky Stern:**
Thank you. And just to follow up on that, in terms of sort of what types of businesses you’re looking at, is that still sort of filling gaps where you may have them – what sorts of businesses would be interesting?

**Dominic Blakemore:**
Yeah, I think very much so. Look, we’re interested in digital capabilities. When we talk to our clients today, there are three priorities that our clients are talking to us about. It’s diversity, it’s digital and it’s net zero. So we know that we need to organically and inorganically build that digital offer. So we’re excited about that, Vicki. We remain very interested in sector diversification, particularly within healthcare and senior living, which is a good growth, good margin sector which we believe will be invested in over time by private and public sector. So sectorization remains important. We hope and believe there’ll be some opportunities for good volume through this cycle, and we’ll look for those, but the economics will have to work. And finally we’ll look for good management capability and brands as well. You know, the pipeline is good. We looked very, very hard at three deals this year. We concluded that one was a subsector that we didn’t think was right for us, and we had better capability and it wasn’t the most vibrant of subsectors. And we’ve looked at others with a similar lens. So we’ll keep that discipline strategically and financially, but we think the opportunities are emerging.

**Vicky Stern:**
Great. Thanks very much.
Jaafar Mestari – BNP Paribas:
Hi. Morning, everyone. Two questions, if that's okay. Firstly, on reopenings and mobilizations in Q3, appreciate you're not quantifying those, but maybe more qualitatively could you talk us through how this works and how long in advance you start restaffing and restocking? I mean, your Q3 ends in June. Is there really that much that's going to be reopening in June/July, or would some of the big reopenings in B&I, for example, not be in September/October, and therefore you'd have more of those costs in Q4? And then secondly, just in terms of your go-to-market strategy, I'm assuming you're not just waiting for incoming calls from potential first-time outsourcing clients. So, as this is accelerating, what have been the tweaks to the sales teams – in terms of numbers or organization? What's been added or removed in the pitch – features your brands in how you segment the market? In particular, I've noticed a couple of recent initiatives where you seem to be helping clients think – employee experience software and consulting and such. So is that just anecdotal, or is there a real pivot to sometimes a more holistic approach that historically was not really that central for most of your brands?

Dominic Blakemore:
Yeah, Jaafar. Thank you. Yeah, really interesting questions. First of all, just on sort of reopening and mobilization in a bit more color. I don't think I can give you any more numbers than we've tried to help with this morning, but, you're absolutely right. You know, many clients want to open now, and that's why we talk about most sites being open in May, so that they can have the experience of managing through lesser activity in June and July. So it's not a choice to defer opening until it's busy. It's they want to open now so they can start to figure out what hybrid working looks like, what the office of the future looks like, what the food offer to go with that is, how it's adequately social distanced, what new regulations emerge and need to be met. And there's almost a sort of suck-it-and-see at lower volumes for a few months as they build that back before we all recognize that post the holiday season and as we get into the autumn and winter, those volumes will pick up significantly. I think we should also not lose sight of there's quite a lot of pent-up employee demand to be back in the office. You know, I don't know what many of you on this call are right now and what your own institutions views of life are, but as we talk to clients, you know, one of the key drivers is employees want to get back into the office, and, you know, that's regardless of the holiday season. So it's right, we believe, that we're investing now. The timing is right to go through sort of May to August, really, recognizing there'll be lower volumes, so that, when those volumes pick up, we really have the experience to ramp up. Just in terms of what it feels like, I mean, I described it as – effectively, the reopening of our
existing business that shut and the opening of two years of one business is the equivalent of five years’ new business being opened simultaneously. So that's an incredible pressure. And what does it mean? You know, we have to re-recruit ahead of opening. We have to train people. We have to go back through the health and safety protocols. Many of those health and safety protocols have changed. I’ve been in the office a few days, and just trying to remember to wear my mask every time I'm in a public space and not in an office is challenging. So, you know, we’ve got to do the detail and the minutiae as well as the bigger processes. There are changes to menu design that we’ve got to implement. There’s new digital initiatives that need to be brought in on sites. There's an awful lot of pre-work going into reopening. And then when we open, obviously, we're operating, I wouldn't say a full crew, but we have, you know, more than half of the team, probably for 10 or 20% of the volumes. And that means we need to go into a new phase of negotiations with clients on the right cost recovery mechanism. You know, that puts pressure on the back office. You know, in our North American business, we’re probably recruiting between 20 and 30,000 people in a month, which is volumes that you've never seen before. And obviously that’s in a tight labor market. If anyone can make a virtue of that, we can. We have lots of formerly trained Compass colleagues that we'll bring back and so on, but that's going to put pressure on the whole industry, and again on self-operated clients in particular. So there's lots of sort of day-to-day challenges of what that reopening looks like. And of course, we can’t afford to get it wrong because in this environment, any failure is very visible and very sensitive. So we're incredibly focused on getting it right. You know, that’s – hopefully that gives you some color as to what the look and feel is, but I think we get rewarded the other side of it, both in client relationship for having managed it on the front foot and also having put the costs in when the volumes come back. We believe that we should benefit in the margin recovery.

When it's talking about the go-to-market strategy, you know, you're absolutely right. We’re not awaiting calls. And across our entire business, we are now very focused on first-time opportunity and reaching out to clients where it's been a slow burn before. Can we accelerate those relationships? We know who they are. We know where they are. We know what they've been through. Where perhaps we've been building the lists with more energy. We've upweighted sellers into that particular first-time outsourcing opportunity. And the one thing that we said throughout this is that we wouldn't compromise growth investment in our rightsizing. The way you've seen us, have a big impact on MAP 5, we have not compromised growth and we will put back the growth investments that we need to really maximize the opportunity.
In terms of pitch, I think I said it in an answer to another question. The three things all of our clients talk to us about are diversity, digital and net zero. And that is resonating in all of the pitches that we take into clients, to a more or lesser extent. And we feel we’re really well placed to deliver on that. You know our capabilities in Compass, and around E-15. We’ve made acquisitions. We feel we’ve got the offer now, and we’re putting it front and center. And I was just reviewing a university bid here in the UK where actually what was a traditional refectory is almost completely being closed to create new social space for students to spend time in, such that we now produce either offsite or onsite, but in a different spot, so that we can deliver the students’ personalized requirements anywhere on campus. So there’s a way in which our clients can use their real estate differently through this offer, and that’s part of the consulting.

Really long answer, we’re working on workplace of the future with our clients and trying to lead on that. We’re working on health and wellness in particular. I mean, there’s a huge concern around the physical and mental wellness of the workforce as it comes back, and, you know, if the workforce that comes back the same as the one that went home. You know, we all know that there have been mental health challenges. You know, many people who suffered from COVID may have long COVID. And some of our clients are incredibly focused on what that means in terms of how they care for their employees in this next phase. And we think that we can be part of that story, so we’re very focused on health and wellness. And all of these things, I think, give us a really important role to play in the future. And we’re trying to weave that into our offer and our strategy.

Jaafar Mestari:
Thank you. That’s super useful. And that’s nothing to do with traditional support services?

Dominic Blakemore:
No, it’s not. I mean, look, you know, support services is a broad umbrella. And as you know, we tidied our portfolio up over the last few years. I think the one service within support services which is now valued in a way it wasn’t is hygiene/disinfection/cleaning. You know, it has got effectively a premium rating, right? And we provide that brilliantly within healthcare, in DOR, in parts of our education business. So now that we’ve got a great portfolio, where we see the opportunity to grow that or cross-sell it, we will.
Jaafar Mestari:
Thank you. Thanks so much.

James Ainley - Citi:
Thank you. Yeah, two – just two questions remaining, please. You sort of painted a picture that – obviously, very strong levels of new bidding or new activity. I guess it's against the backdrop where a lot of processes were stalled post – during the COVID period. Are those processes now reopening, and therefore should we expect some more of an acceleration from here in terms of new bidding activity? And then secondly, can you just update on the contract mix? I know you moved a lot of clients to cost plus or management fee basis during the pandemic. What triggers moving them back to the more normal terms going forward?

Dominic Blakemore:
Thanks, James, and I'll hand contract mix to Karen. Just on stalled processes, I think, if I've heard your question right, you’re suggesting that growth could be even better. I think we feel actually, we were very surprised that new business processes pretty much carried on throughout the pandemic and were done virtually. We've got a green screen room in one of our offices now where we've done virtual presentations and its enabled the bid process to carry on. But today, whilst we’re – you know, we’re recognizing the very strong performance on new business, up to 2021 over 2019, which was the benchmark for us as sort of pre-pandemic levels, we also had a really good Half 1 in 2020. I'm not sure we were talking about it when we met, and not a bad Half 2 in 2020 either. It's just that most of that business hasn't mobilized. And it's why I talked about a sort of real pressure on opening as we get back into this next phase. So the new business has held up very well from a new win standpoint. You obviously don't see it in our reported new business growth, because it's suppressed by volumes. So I think that trend has been there for a while and, look, if it could continue at these levels, as we said earlier, then that would be very positive for us.

Karen Witts:
And James, hi, just in terms of the contract mix, the underlying contract mix hasn't actually changed. So we’re still working on the basis of a third, a third, a third – a third fixed price, a third P&L, and a third on cost plus. But what we’ve been doing and what we have to continue to
do is be in constant dialogue with our clients to make sure that, you know, we are not operating at a loss in these times that are quite volatile. So in the first instance, we had to make sure that we were recovering costs. We’re probably moving into a slightly changed kind of conversation environment, and that’s related to some of the comments that Dominic made about, sites are generally reopening, but at very low volumes. So we have to have another conversation about what is the offer that the client wants in times when the volumes are still very low. So it’s going to be ongoing work for the teams who are involved in those client conversations. And there isn’t really one trigger point that says, right, we’re back to – back to the normal. What we are learning from this, though is that, as we write new contracts, we’re kind of putting more and more protections in place and giving ourselves the flexibility to operate more hybrid models. I mean, let’s hope we never another pandemic that comes along again, but, you can envisage different kinds of business disruption that might mean that at certain levels of volume you would move into a different kind of contract structure in the short term.

James Ainley:
Okay. Very good. Thank you.

Karen Witts:
Thanks.

Kean Marden - Jefferies:
Morning, all. Thank you very much. Most of mine have been asked, but I’ve got a handful, left over. Just first of all coming back to US labor markets, Dominic, do you think there’s a lingering supply side issue in the US labor markets, or do you think that wage rate inflation will help the participation rates move back up, and are you changing the way that you recruit in this environment? Secondly, just coming back to your point on premium rating in cleaning, does that necessarily mean that you’re also getting a premium margin for those services that you’re providing your clients now as well? And then thirdly, if you could possibly provide an update on GPO, that would be helpful, I think, particularly given some marketing material by one of your competitors recently which maybe suggested their overall procurement volumes were now slightly higher than yours. Thanks.
Dominic Blakemore:
Yeah, thanks, Kean, for those questions. I'll take the premium rating on support services first. I think that that is relative to where it was before. So obviously when it was less attractive to us, it was more commoditized. It's now really being recognized as a core service for all built environments, and that will be the case going forward. I think there's been a big learning there. So, I think what it says is, the margin is as attractive as all the services we provide and the capabilities are better expected. That therefore may mean that it's a time for us to play a bit more thoughtfully in that space. When it comes to US labor, yeah, look, I mean, we all know that some of the benefits that are being received at the moment make certain roles less attractive to the individual. So there is a squeeze on labor supply. You know, what I hope is we're recognized as a great employer. We believe that our overarching proposition is attractive, that our colleagues will look beyond the near term and think again about job security beyond these next couple of quarters, as it were. We also know that, we will have to compete on wage rates, and that's driving some of the inflation, and we're seeing the highest labor inflation in North America. And, we need to manage that through efficiency and we need to manage it through cost and negotiation. I think, again, the visibility of some of the social inequality issues means that that becomes an easier dialogue in many ways. And then finally, look, we've built a number of digital platforms for labor recruitment. We talk about Bench in the US, we talk about Constellation in the UK. I mean, if I just give you the example of Constellation, effectively it's an internal labor agency whereby colleagues sign up on it, they're fully accredited, fully trained, and then have an access to work across multiple sectors, multiple clients, multiple shifts as they wish. So they can fit in the shifts to their own lifestyles when they may have caring responsibilities and can't work, and sometimes those shift week on week. So what we believe is it gives us access to a labor pool that we weren't tapping into as well as we could have done before. And I think it's those levels of innovation that have to come to the fore for us to be able to address some of those labor supply squeezes. So we think that that is positive in the manner in which we will deal with it. And then finally I'll hand over to Karen on the GPO question.

Karen Witts:
Morning, Kean. I'm afraid I can't really comment on what anyone else is saying about their GPO activity. I mean, what we know is that our volume has been impacted, because our business is impacted by COVID, and we also do third-party volumes through our GPO in areas of hospitality that have been impacted. However, our suppliers have been very supportive, and very many have honored their pre-COVID pricing and rebate structures. They know that we want to work
with them for the longer term, and this is a short-lived phenomenon. We have talked over the last six to nine months about how controlling food prices is a big part of controlling the controllable. So we have been consolidating suppliers and maximizing the benefits of a narrower food range and as we’re switching to more pre-packaged and pre-prepared offers. So that’s been helping to support gross margin benefit. And then actually, going forward, we think that there are some efficiencies that we’ve created and learnings that we’ve taken from the period that will serve us well into the future.

Dominic Blakemore:
I’ll just add to that, on the food buy. I mean, one of the metrics we clearly track is our relative scale to our biggest competitors, and we believe we are, at this point, significantly bigger relatively to our competitors than we were prior to the pandemic. And that means that we, vis-à-vis our suppliers, put more volume through them relatively, and that gives us greater attraction. And we’ve also continued to grow our third-party estate even through the downturn. So I hope we are making the best of the circumstances there, and we will benefit again when we come through this.

Kean Marden:
Thank you both.

Richard Clarke - Bernstein:
Good morning. Thanks for taking my questions. Three, if I may. Just following up on the last question around labor supply, a couple of high-profile Compass employees have moved to a competitor in the last few weeks. Are you seeing some higher bidding for experienced salespeople? And I know Compass talked about succession policy a couple of years ago to avoid any key person risk. Maybe just any update on what the sort of key person risk is at Compass at this stage. Second question, your guidance on margin is to be above 7% before volumes recover. You’ve set out a cost saving budget that’s about another 2%. Is there anything you’d call out that means that structurally you can’t get back to the 7.4% margin you did in 2019? And then lastly, on – you’ve called out vending today as an opportunity. I think my understanding is – can you confirm that is largely a US business? So what is the sort of strategy to get vending to be a global business? Is that somewhere where M&A might be focused, or can canteen simply be carried across the pond?
**Dominic Blakemore:**

Yeah. Thank you, Richard. Yeah, great questions. Yeah, look, as a board, we were very careful through the second half of last year and the beginning of this to ensure that we've got all of the key people, as we see it, locked in, so we feel comfortable that we've taken measures for our leaders. Secondly, look, there are always people who leave our business. You know, I don't think that's something we should speculate on. You know, we're super happy with the team that we've got. And, you know, I can say I feel that we've got the best team we've ever had in this business right now.

On restoring the margin to 7%, there's nothing that, in the medium term would prevent us from getting back to the historic levels of margin. I think we set ourselves the ambition of 7% before volumes come back to ensure that we're putting pressure on ourselves, and that it's a positive recovery and journey, but we know we're creating efficiency and opportunity, even beyond the model we had pre pandemic. The question will be, where do we want to put investments back into? You know, there are areas – clearly growth needs to be adequately resourced. You know, digital capabilities needs to be adequately resourced. Our procurement shifts as we see the need to better understand sustainable sourcing. There will be changes, which all goes to the heart of the quality of our offer and the ability to win in the market. So there is a judicious journey to go on of trading margin with investment to make sure that we grow fastest whilst having industry-leading margins.

And then finally, just on vending, I mean, there's still a big opportunity for consolidation in the US. Vending has been revolutionized by digital and technology and will continue to be so, we have scale, we have footprint. Scale’s vital there, and we think it's a really important play into many of our clients. It's difficult to build organically, and therefore you’re absolutely right. Our vending presence is predominantly in North America, and it's where we'll focus for now.

**Richard Clarke:**

Just maybe a quick follow-up. Could you let us know what percentage of your US B&I business is vending at the moment?

**Karen Witts:**

For B&I, it’s about a $2 billion business.
Dominic Blakemore:
Or, I guess, was pre-pandemic.

Karen Witts:
Pre-pandemic, yeah.

Richard Clarke:
Okay. Thanks very much.

Tim Barrett - Numis:
Morning, both of you. I just had a bigger picture question left, please. Last November, you really helpfully talked about any permanent change in consumer behaviour because of the pandemic, and clearly you were flying slightly blind. What are your updated thoughts now on white-collar B&I patterns and remote study in higher Ed? It feels like you may have been overcautious, but any thoughts there, please?

Dominic Blakemore:
Thank you, Tim. Yeah, look, I think – and, I have a little bit more insight into the higher Ed space. I think generally there is more likely to be a return to campus, than virtual hybrid learning. I think that's what we're hearing from our clients and, we're seeing from the student body. So perhaps there was a little bit of caution in that. I think – within B&I, I think, we're about right. You know, that hybrid model in B&I is something that everyone is embracing. We do expect to see most colleagues offered more time working from home. But, as we said at the time, we expect to see more structure in how people work in the office. We’re talking to clients about – at the moment, I think the answer is it's Tuesday/Wednesday/Thursday, but clients need to use their real estate across five days. You know, being redundant four days a week kind of doesn't make sense, which means there'll need to be an offer throughout the working week. We think individual behavior by employees will be different, based on their own personal circumstances. So I think there’s a lot yet to be developed and to come out. And I know that a lot of companies are seeing that collaborative colleague working is a commercial advantage. We’re hearing that in tech, we're hearing it in financial services. But I think we're going to see a range of outcomes, and – you know, and it will be values-led in many ways, and we have to
respond to that. Do I think we've been a touch cautious on the B&I? I think we're about where we need to be right now. I think what's exciting is how important our role is in helping clients develop those solutions.

**Tim Barrett:**
And was it 30% you'd originally thought on higher Ed?

**Dominic Blakemore:**
I think that was about right, yeah.

**Tim Barrett:**
Thanks very much.

Closing Remarks.

**Dominic Blakemore:**
Just to say thank you all very much for your very important questions today. That was clear and we look forward to speaking to you in late July.

**Karen Witts:**
Thank you.

**Dominic Blakemore:**
Have a good day. Bye-bye.