

Compass Group 2022 Half Year Results

Presentation

Dominic Blakemore

Group Chief Executive Officer

Thank you and good morning. As usual, I'm joined by Palmer, our CFO. We're very pleased with our half year results. We've reached another milestone and we're now above 100% of 2019 revenue on a run rate basis, with two or three regions and four or five sectors now above 100%. We're capturing the growth opportunity with another period of record new business wins and record client retention, with growth now well balanced across our regions and sectors.

Global inflationary pressures are impacting all of us and we expect it to further accelerate in half 2 and continue into the medium term. However, we believe we have the tools to manage these challenges and will benefit from the tailwind it provides to outsourcing. Our business model is resilient in times of volatility and our balanced footprint will continue to limit risk. Given both our strong performance in the first half and our confidence in the future, we're increasing our organic revenue growth guidance and commencing a share buyback programme.

Lastly, a few words on Ukraine. We've all been shocked and saddened by the tragic events unfolding there. While we have no operations in Ukraine, we're providing extensive humanitarian support. We've permanently exited our small business in Russia and have terminated all known Russian supply arrangements around the world. The impact of this is fully recognised in our results. Thank you, we'll now open up to questions.

Q&A Session

Jamie Rollo - Morgan Stanley

Morning everyone, three questions please. Just first of all starting with costs, one of your competitors yesterday flagged a couple of items affecting its margins you've not mentioned today. Those were a slower conversion back from cost-plus to P&L and also some off-programme procurement due to supply chain complexities.

I guess we're not seeing those, but could you just talk a bit about whether you are perhaps seeing these issues, what's offsetting that? Perhaps more specifically, if we're exiting at 7% this year, is it fair to say that next year's margins should be at least 7%?

Secondly, on the business wins, the CapEx guidance says 3.5%, implies more like 4.5% in the second half. Is that the new run rate with this higher pace of business wins? If not, does that imply you're getting higher returns? Because you're winning clearly a lot more business for a similar CapEx level.

Then just a quick one just on Brunel, the KPIs look excellent there. Clearly it shows what you can do with both digital and delivery. Can you replicate that outside UK higher ed into other verticals and other markets? Thank you very much.

Dominic Blakemore

Thank you, Jamie. If I go to Palmer for the questions on cost and CapEx and then come back to me on Brunel.

Palmer Brown

Sure, on the costs, the contract structures are gradually migrating back to our traditional proportions. So we are seeing a gradual migration from the heightened cost-plus that we've had over the last couple of years during the pandemic, back to P&L as volumes continue to increase. Now within that, you are seeing heightened subsidy levels relative to pre-COVID, so it's not purely apples to apples, but it's a gradual conversion.

The implication, the readthrough is obviously to the handling of inflation. When we look at it, we group the cost-plus and the P&L contracts to consumers together, because they each give us the ability to handle inflation relatively nimbly. Cost-plus is obviously a direct passthrough and then on the P&L basis we have a timely overpricing, so we can get pricing relatively nimbly.

Those two represent about 70% of our overall contract structures currently. The remaining 30% is in the fixed price category, where we do have the ability to price. However, it's on a lagging basis and therefore we're putting in a lot of time and investment to mitigate the impacts there.

Your question on CapEx, we're 2.6% in the half, 3.5% for the year we still think is the right number. We don't see the model changing over time, it's just timing and this year I wouldn't read more into it than that. I will say that if we have the ability to win more growth, even more than we're doing now by spending more, we're not going to shy away from it, but currently our model still holds.

Dominic Blakemore

Thanks, Palmer and just on Brunel, Jamie, I think the principles of what we're doing at Brunel are equally applicable to most of our sectors and most of our geographies. So what are they? It's digital, it's prepay, it's cashless, it's scaling production in one location, it's producing to order not to batch size as we would previously have done, which reduces waste and increases efficiency. I think all

of those principles can be deployed across our sectors, whether it's B&I, it's defence, it's remote and even in sports and leisure, as we see increasing use of digital, cashless and unattended.

So we're very excited about the learnings that we've got there and in other parts of the business where we're deploying this.

Palmer Brown

Jamie, forgive me, you raised the point about margin heading into 2023 as well. We're reiterating our margin guidance for the year above 6% for the year, exiting around 7%, in that neighbourhood. As it reads into 2023, I think we've just got to be cognisant of the overall environment. We've got heightened growth which has the drag of the mobilisation costs as well as the progression of margin over the lifecycle of the contracts, as well as the high inflationary environment. As long as those two things are happening, our margin progression will be more paced.

We still believe that we will get back to our pre-COVID margin level and certainly we don't necessarily view that as a cap. We do think we'll get back to there, but it's a matter of time. Right now, we're seeing the heightened growth opportunities in the marketplace, we're taking advantage of those. We will continue to do that, it will drive overall profit, and we think that's a better place for the Company.

Jamie Rollo - Morgan Stanley

Just to clarify on that, so if you're exiting at 7%, you're saying the pace of growth will clearly explode, but there's no reason why next year should go back below 7%, that's not what you're saying.

Palmer Brown

We would be disappointed if margin went backwards, we would be highly disappointed in that.

Jamie Rollo - Morgan Stanley

Thank you very much.

Bilal Aziz - UBS

Good morning, thank you for taking my questions. Three relatively quick ones from my side please. Firstly, just on the good new business wins, clearly another big step up sequentially. Some of your peers have given a bit of quantification of where they think they could end up by the year end. Is there any sense from yourself on progression on that number in the second half?

Secondly, tied to that, your net new relative to 2019 is running at 4.4%. Clearly the implication is that the new business wins layering now will continue to take that number higher. So any updated thoughts on how that layers then going forward please?

Then lastly, just on the margin side, I appreciate all the commentary on the inflation. You mentioned 30% of your contracts are fixed price. Do you have a sense on the price gap versus the cost side in the first half and how you expect that to trend going forward please? Thank you.

Dominic Blakemore

I'll come to Palmer on the third question. In terms of the new business wins and step up, yes, I think it's important to recognise that when we report record new wins and record retention, we're not yet seeing the full benefit of that within the P&L. So with those forward-looking indicators we would expect our net new win rate to improve further into the second half. How much further, we'll talk to you in Q3, but from that 4.5% 2019 comparison we would expect to make more progress.

In terms of absolute new business wins, I think we won £550 million in the first half. That would be at the start point for the run rate on a full year basis with a little bit of improvement. Then on inflation, Palmer?

Palmer Brown

Yes, in the first half we got about five points of pricing within our growth. Clearly inflation has been running higher than that and we've been able to hold our margin consistent there. So between the mitigation impacts, using our operational tools, menu flexibility, procurement, opportunities and the like, coupled with the pricing, we've been able to digest the inflation as well as the mobilisation costs that are there. So that's one half.

We're cognisant that we will see continued inflation in the second half of the year, possibly at an accelerating pace. So we know that we certainly have to continue doing what we're doing and probably work even harder to continue the progression. But we have the capabilities to do it and the confidence that we'll be able to handle things.

Bilal Aziz - UBS

Very clear, thank you very much.

Vicki Stern - Barclays Capital

Morning, just a few on the net new, the acceleration in signings. How much of that do you think is temporary, helped by just the features of the moment, higher inflation, supply chain challenges and so on and how much is sustainable or driven by self-help coming through from the Company? A similar question really on the higher retention, is that a sustainable level of 95.8%?

Linked to that, you mentioned again in the press release that you think Compass should have faster revenue and profit growth in the future than in the past. If you just flesh out then the thinking there, I think there used to be a 4% to 6% organic growth guide. Obviously, you're clearly seeing a step up in growth right now but as we look to the future, how should we think about the future growth rate?

Then just finally on B&I, you've obviously had a good recovery already in volumes there, but still a way off 2019 levels. You've previously flagged, I think, a Group revenue headwind of 3% to 4% perhaps from work from home effect. Just your latest thinking now around that ultimate drag from work from home, or indeed potentially mitigation of that through other things you've flagged like higher penetration and so on, thanks.

Dominic Blakemore

Maybe if I take the first question and pass two and three to Palmer. On the first, yes, I think there's a few things going on there, Vicki. Absolutely we're seeing the benefit of self-help, most particularly outside of North America where for a while we've been working very hard on core processes, training, the right resourcing, the right focus on the market opportunities and I think that's where we're being most rewarded right now.

I think the second point to make is that through COVID, we sought to retain all of our sellers in all of our markets and so we didn't really miss a beat on continuing sales processing. I think that has rewarded us relatively and with our clients. I think what's exciting is the pipeline that we reported at the end of last year looks as good now and into 2023. Our win rates have improved and we do believe that the market factors that you described, whether it's supply chain disruption, labour availability, inflation, we talk about digital, we talk about sustainability.

You'll have seen in our presentation this morning, we think there's a long list now of attributes and requirements for outsourcing that we can really be meeting. So yes, we very much hope that all of those factors are sustainable, but I think it gives us confidence that in a great marketplace with huge opportunity we can sustain, if we perform better than we've done before.

I think many of those apply to retention as well. I think if we can be demonstrating to our clients through the life of a contract that we can address all of these issues for them and with them, I think that gives us a greater opportunity for retention. We hope the way in which we've dealt with some of the challenges through COVID and some of the challenges that we're now seeing has created greater goodwill and trust, which will mean that as we face into some of these future challenges then there's a degree of confidence in our ability to support our clients.

When it comes to the model of revenue and profit growth, I think we're living in uncertain times, aren't we? So I think it's very difficult to put a range on things in the near-term. We're seeing 5% of pricing in the first half, our historic level would have been 2%, so you simply add 3% to the old growth rates. We're one, one and a half points ahead on net new business, you simply add that to the old growth. We've still got a 15% volume recovery opportunity, how and when does that come through?

I think if you take all of those in turn, it tells me that we're going to be at elevated levels of growth for a while, but I'm not sure we can put a range on that yet. We will do that when we feel confident,

but I think what makes me, I guess, most excited is the opportunity for us to be at structurally higher levels of net new. So even if some of these - I'm not going to say transitional but maybe medium-term factors subside, we should have a right to be at higher levels of growth and we'll talk to you about that when we feel able.

Palmer Brown

On the B&I question, we're becoming increasingly confident that we're going to see a full recovery in B&I looking at it on a revenue basis. So currently it's still by far the slowest sector to recover, it's really the only sector that's meaningfully below 2019 levels, it's around 83% or so currently. We did say a nice tick up in the quarter, which we were very pleased to see.

But we're getting increasingly comfortable on the fact that it will recover. However, it will look different than it did historically. So what we're seeing is a shift away from working more in the office on a prolonged basis. I think the data points we're seeing is that it's gone from somewhere around 4.2 days of work in the office down to about 3.75 or so right now.

That's still in a state of flux, we know many of our clients are wanting employees back in the office. The war for talent is making it somewhat difficult at the moment and we know a lot of clients have been big acquirers of real estate during the COVID downturn, with plans to utilise that.

What we're seeing is significant new business opportunities in B&I come from other avenues in terms of the new model. So significant opportunities and new business wins on micro markets, in pantry, in free food offers. Even in the traditional café space we're seeing revenues come back more quickly than populations are.

It gives effect to the higher participation levels that are happening there, the higher cheque averages, higher subsidy levels and the free food levels. So the net-net of it is we do expect to see a full recovery on a revenue basis, however, when you peel the onion back it will look a bit different than it has historically.

Vicki Stern - Barclays Capital

Very helpful, thank you. Sorry, just a quick follow-up on the retention. I think you used to set a ceiling for yourselves at 96%, being the optimal level. I'm just curious if that's still true, because you're basically there already now.

Dominic Blakemore

Our retention levels in North America have been and are exceptional. The opportunity has always been outside of North America and that's really where we're seeing the step change. That point of improvement is really coming from, the majority of it is coming from our performance outside of North America. I think there's still a way to go, I wouldn't put a ceiling on it. We will continue to eke out the marginal gains.

Vicki Stern - Barclays Capital

Thanks very much.

Richard Clarke - AB Bernstein

Good morning, thanks for taking my questions, three, if I may. Just the first one on the buyback, maybe just some colour on why you've gone for a buyback here rather than the normal special dividend and what maybe we can conclude on the M&A opportunities for announcing this now. Are those not quite as good as you'd hoped, or are those still there?

The second question, just on the comment that you believe there's 15% of volume to come back. Is that a calculation back to 2019 volumes? Or is that incorporating any changes in volume you have? And where are you expecting that to be to hit that 7% margin number as you exit the year, are you expecting quite a lot of recovery there?

Then the third question on the prepared remarks, you talked about vending and delivery being on top of your classic £220 billion addressable market. I'm just wondering, I don't think I've heard you using that language of it being incremental to it before. So maybe if you can just talk about what is that opportunity and how big could that be beyond the £220 billion that you normally talk about.

Dominic Blakemore

I think if I hand over on the first two to Palmer.

Palmer Brown

The buyback, we're looking at our performance over the COVID period, how we've recovered. Our cash flows are getting back to the strong pre-COVID levels that we've enjoyed before, our leverage at the half year was down to 1.3 times. We had predicted that without any capital returns we would be around 1.0 to 1.1 times at the year end.

Keep in mind that includes about 30 bps of accounting change from the lease accounting, so on an apples to apples basis, on an historical level, it's less than 1.0, obviously fairly conservative. So when we looked at our overall capital allocation framework, we decided this was the right time to go forward. Our cash generation we expect to increase as we go forward.

With respect to the buyback versus the special dividend, I think at this level, the £500 million over the second half of the year, then just the flexibility and just the increasing preference that we're hearing, we decided that was the appropriate path to take. What it means on a go-forward basis, obviously we'll continue to look at our overall framework as the indicator on where it'll land.

We're increasingly looking at M&A. We've been disciplined in the past, I think we're even more disciplined now when you think about the macroeconomic environment that's there. We've got to be pretty convinced about the opportunity for us to take advantage of M&A at the moment, with

everything that's on our operators currently. I think that's the reality. That said, if we have a very attractive opportunity, then we're going to take advantage of it. I think we've got the wherewithal to do that.

Prior to COVID, the three years prior to COVID, we returned I think it was £2.7 billion of capital to shareholders, that's on top of a little over £1 billion of M&A that was done in that same period. As we look forward over the next three years, we expect stronger cash generation than we had historically. So obviously that gives us a good bit of flexibility in decisions that we'll be facing going forward.

In terms of the base volume yet to recover, we think it's somewhere around 15% based on an historical basis. This really goes back to the question just a second ago with Vicki, to some degree. So to what degree does that 15% come back, or to what degree is some of that structurally impaired but perhaps takes on another form in respect of new business.

I think what we're trying to show here is that we've got still a significant portion of our business that we're currently not operating and while B&I is the largest piece of that, we're seeing it in all sectors. So healthcare retail is still significantly close. We're seeing a backlog of the medical procedures, we're seeing sports and leisure events that have been postponed, or tours or things of that nature. So we still have base volumes yet to recover across all sectors. We can talk about whether the full 15% comes back or not, but regardless, I think it gives you some indication of the opportunity that's there.

What it means for the margin recovery is that we do expect to see overhead leverage as we go forward, we do think there's natural leverage in this business as we grow. As volumes naturally come back, we do expect to see a nice drop through that will help that margin recovery. Again, it's really difficult to predict the pace of that recovery, both on the top and bottom lines, I'm not sure we're that good to accurately predict it. But it will come, we're confident in that and then just as we said before, we're going to take advantage of the growth opportunities first and foremost.

Dominic Blakemore

Thanks, Palmer and on the point, Richard, about vending and delivery, we haven't quantified it but we do see an interesting opportunity in both of those areas, as well as in support services where we've got great capability and in fact I think we've now rightsized the portfolio. In support services we've got good businesses with good leaders and a USP that have flourished through the pandemic and are accretive to growth. So we feel confident that there's an opportunity there which is outside of that food core.

Secondly, within vending and delivery I think we've looked at it previously as an alternative way of addressing the needs of our clients on-site. I think increasingly we're seeing that there are other opportunities opening up. So whether it's the examples we've given in the past of serving SMEs in Dublin from a central production kitchen through a digitally enabled, app enabled delivery model, or whether it's the Brunel example where 30% of our volumes are being served offsite through delivery, which would be incremental volume to us than we previously enjoyed. So I think we see those increasingly now as other drivers of opportunity, which come from the innovations that we've been working on within our core food offer.

Richard Clarke - AllianceBernstein

Thanks. If I could just ask a quick follow-up to your comment on the overheads that Palmer mentioned. I noticed in your slides you had the reference to 480,000 employees. If I go back to your 2019 reports, you had 100,000 more employees than that. Is this a permanent change in the level of employment at Compass? Or is there still some employment to come back as well as the revenues and the volumes recover?

Dominic Blakemore

I think part of that is in the manner in which we do the calculation, because it's on an FTE basis and therefore it's the period of time for which those employees have worked with us. So the actual spot numbers would be higher and then the average will become higher as we go forward.

That said, clearly we are looking at greater levels of efficiency. It's one of the things we talked about through COVID and how we would introduce greater flexibility and recovery to be more flexible to volume volatility, which I think is really, really important. And we will see a good deal of those employees come back as these volumes come back sustainably over time.

Richard Clarke - AllianceBernstein

Okay, thank you very much.

Neil Tyler - Redburn Partners

Good morning, thank you very much, a couple left please. A quick one to start with, I wonder if you could help split the uplift in your organic growth expectations between the various components, I suppose, faster recovery, additional price passthrough and then the net new contribution.

Then following on from that, Palmer, you just discussed the operating leverage that the business has demonstrated historically and I wonder if there's anything in the nature of the new wins and the shape of the services that you're providing - and this comes back to the point on the cost structure - whether once things settle down into the new cadence of growth, there's any reason not to anticipate very similar operating leverage. Therefore, 20-30 basis points of annual margin improvement on the back of that new growth trajectory.

Then finally, alongside that, just on the topic of new wins, are there any individual either contracts or segments that you're able to single out as contributing more meaningfully to the uplift in the gross wins figure and particularly thinking in Europe? Thank you.

Dominic Blakemore

Let me pick up on the first question and then go to Palmer for the second and third. Just on that first point, I don't think we would quantify the drivers of the uplift. What I would do is reassure you that this isn't about pricing. If we were taking five points of pricing in the first half, we would expect the same and maybe a point or two more as we see higher inflation. We talked about inflation in the first half being six to seven, we expect that to get to high single digits. So we will see a bit more pricing, but it's a driver but not the driver of the revenue uplift.

I think more importantly, we're seeing a slightly stronger volume recovery. We've talked about both B&I and education responding better than we'd anticipated, certainly post-Omicron and in the latter months of the second quarter. So there's an element of that and then I talked earlier about net new accelerating in the second half as well. So I think again what's pleasing is that the guidance upgrade we've given today on growth is broad-based.

Palmer Brown

In terms of the new business wins and the impact that it had, there's really nothing new on the new business wins in terms of the types of contracts we're winning. We flagged previously the increased amount of wins from first-time outsourcing, that is continuing within this £2.5 billion over the last 12 months, about 45% of that is from first-time outsourcing.

And just as Dominic mentioned earlier, it's a reflection of both the market dynamics that are in play, as well as the self-help that we've been utilising, which you've seen from us in the past and it's not rocket science. There's a bit of a trade-off on the top line growth and the margin progression, so you've seen us invest a good bit of drop through back into the top line to produce the growth rates that we've enjoyed historically. They accelerated from 3% to 5% to 4% to 6%, we're just north of 6% in 2019, fiscal 2020 when COVID onset.

So we still have that gradual progression and when you look at the margin profile there, it was modest margin profile again just focusing on the growth opportunity and the overall EBIT growth. We think that's the best shape and progression for the Company, that's what you see us undertaking now and that's what we would continue to look for as we go forward.

Within the contract wins over the last 12 months and in the first half, again the types of contracts, I don't think there's anything different there. They're broad-based across all sectors, we flagged a couple of big ones when we spoke at the end of the first quarter in sports and leisure and in B&I.

You referenced the geographical dispersion, we are very excited about that. Within the new business wins, the £2.5 billion, it's a 20% increase from where we were a year ago. We're very pleased that we saw 15% growth from our North America business, which was one that clearly was operating well historically and that is accelerating.

But we're really excited about what's happening outside of North America. We see 30% increase outside of North America. The bulk of that within Europe, both within the UK and on the Continent, we're seeing nice new business wins coming out of APAC as well. So I think it's a reflection of all the self-help, the expansion of the growth mentality, taking advantage of the

opportunity that presents itself in the market and we see that continuing. So we're really pleased with what we're seeing and we think that it can be sustainable.

Neil Tyler - Redburn Partners

Thank you, that's very helpful.

Joe Thomas - HSBC

Good morning and congratulations on the performance so far this year. Just a couple of questions if you wouldn't mind, please. Just thinking about the 30% organic growth guidance this year, given the strength of the performance in Q1 and going into Q2, I'm just wondering almost why you're limiting it to 30%. Is there something else that you're seeing? Is it perhaps reticence about the economy or something that means that you're not pushing that higher?

Also, could you just talk about what's happening to the smaller scale competitors in the sector? Operators used to talk a lot about that as an opportunity post-pandemic, now not so much, it's more about first-time outsourcing. But I'm just wondering if you can get some more market share gains coming through there.

Then the final thing is can you talk about the spread of margins within the business? I'm just thinking about those parts of the business that haven't come back, those contracts where volumes remain low. How do you press the margins there? What's the dispersion and what do you do about them? Thanks very much.

Dominic Blakemore

Thanks, Joe. I'll do the first couple and then Palmer the third. I think it's a significant upgrade today in our revenue guidance and on the back, clearly, of a very strong first half. You heard me say earlier we expect a bit more strength in each of net new pricing and volume.

You ask about - and I think probably it's very important just to remind everyone, we're lapping 35% growth in the second half of last year with what will be 20%, 25% growth in the second half of this year. So they're very significant comps and very significant growth-on-growth, even though the underlying base period was significantly affected by COVID. So I think we feel good with the guidance we've given today. We'd like to think there's more opportunity but we'll continue to work very hard and remain cautious.

In terms of the economy, I think it's a point worth making. We may see a little bit of impact around the edges in the coming half. I think one point I think is very, very important and worth making is where we've seen previous recessions this is a business that has been pretty resilient. So we've been looking back at post the global financial crisis and actually our organic revenues at the worst were flat and then grew after that year.

The reason for that was again there was a great opportunity for net new business wins, incredible pressure on self-op, pressure on other operators. So whilst there was volume impact, there was a

great net new business opportunity. So we think that's another attribute of this business in times of economic difficulty.

And then when we reference the smaller players in the industry, first of all, we are continuing to take share against all competitors in the industry. It's a smaller share of the pie than it was, but I believe in absolute terms it's still growing. I think we've just been much more pleased with the first-time outsourcing opportunity, because of course that comes with the opportunity for us to deliver the greatest benefit for our clients, the greatest opportunity to reduce costs and improve quality of service. So it is a great source of new business for us and tends to be stickier in the first couple of rebid moments if we've done a good job.

That said, I'd stress there are small players in the industry that continue to do a fabulous job. Very attractive, great management teams, super offers, lots of innovation. We love to see that and we love to think that they could be partners or acquisition targets in the future and we can help them grow.

On the flipside of that coin, I'm sure given all of the challenges that we're facing - and Palmer referenced earlier the huge operational effort that we face into - that our scale process allows us to get good outcomes on. I'm sure there are others that will struggle with that and that becomes an opportunity for us to take share and remains one. Then on margins, Palmer?

Palmer Brown

Yes, on the spread of the margins, we probably sliced it a couple of ways. First of all, if you look at the individual sectors that are there. Interestingly enough, on a unit margin basis, our unit margins within each sector are fairly consistent with where they've been historically. So even within B&I, the unit margins are fairly consistent from what we've seen before.

Now what we're seeing is the progression from the cost-plus contracts back to the P&L. We see the heightened subsidy levels that are there, compared to where we were before. We're working with clients to try to reduce those subsidies, our clients have a desire to do that. We think good partners help them achieve their desires, we think we have the ability to do that and we're doing that sensibly as the volumes recover there.

I think you see that reflected in the unit margin. Where the drag occurs is just on the overhead, so we still have overhead that's a bit more heavily indexed versus the base volumes. So when you have the lower volume that's there, that's what's producing a bit of the drag. But on a unit margin basis the economics are quite good, which to us gives us a good feeling about what lies ahead.

And then if we slice it a different way, from a geographical perspective, we saw margin progression in North America, but also a bit of margin regression within Europe and rest of world. The biggest impact of that on our overall numbers is obviously within Europe and really there are a few reasons for that.

One is it is the slowest to recover of all the regions that are there when you look at the base volumes. You have heightened net new business, so you have net new business within the half of 3.7%. That compares to historical levels of around 0.5%, so a significant increase there. And just as we've mentioned before, we like what we see and we think they're sustainable going forward.

You've got government support that has waned over the first half of the year and it's pretty much all gone away at this point. So that has had a bit of a drag as that's waned away. And clearly inflation and the impact that it's had, coupled with the higher proportion of fixed price contracts, so you've got a bit of the pricing drag that comes along with it. We expect all regions to progress margin in the second half. But hopefully that gives you a flavour of how the margin profile works across the business.

Joe Thomas - HSBC

Great, thank you.

Jaafar Mestari - Exane BNP Paribas

Hi, good morning, I've got a couple on free cash flow and compensation please. So it's a free cash flow of £360 million this H1, £660 million last year, that's over £1 billion in just 18 months. Your three-year LTIP has a cumulative three-year cash flow target of £1.2 billion to £1.5 billion, so I just wanted to make sure I get this right. Are there any material adjustments to take into account? Or are you guaranteed to smash through that target? Or is there any scenario where you actually make such significant investments over the next 18 months that three-year free cash flow is indeed capped at £1.5 billion?

Dominic Blakemore

Jaafar, thank you. In terms of investments that we'll make in the business, as Palmer said today, we expect the run rate investments, particularly CapEx, which will impact free cash flow to continue at the levels we've seen. So nothing significant on that score.

Clearly targets were set in a very, very uncertain environment. We're clearly performing very strongly, we're recovering very strongly, growth is very positive. As you heard Palmer say, we expect to see significant uptick in cash going into the next year and of course, these are matters for the RemCo who continue to exercise discretion on the quality of our performance.

Jaafar Mestari - Exane BNP Paribas

Super and I guess related to that, the discussion, but it looks like on the LTIP side actually the free cash flow component is pretty much there in 18 months. Separately, last year your annual bonus was 99% awarded. Obviously, as you said, this reflects a very strong performance.

But looking into full year 2023, is there a rationale for the Board here to now set even more stretching targets this time with a little bit more visibility? I think 50% of your annual bonus is traditionally based on margins alone, so can you - I'm going to say get away which is probably the wrong expression, but can you get away with only 7% at pace improvements? Or is this a time to have very stretching targets in place?

Dominic Blakemore

Jaafar, I think this is a matter for our RemCo. Clearly there are a number of different factors at play here, as we sought to express today. I think what's most important for Compass is we see the strongest possible EBIT growth, whether it comes from growth or margin and the remuneration targets will need to reflect that in a way that is positive and incentivises our teams, but also is fair and realistic in terms of the market opportunity we have ahead of us. And I'm absolutely certain that will be the moving challenge of our Board.

Jaafar Mestari - Exane BNP Paribas

Thank you, that makes sense. Thank you very much.

Tom Truckle - Jefferies

Yes, thank you, gentlemen and congratulations on the strong results. I just have one, if I may and that is just turning back to comments from the prelim results around expenditure per capita being elevated across education and sports and leisure. Just thinking about volume terms for H1, is it still the case that you see that elevated per capita spend? Or did that tail off through Q1 and Q2? Thank you.

Palmer Brown

We have been seeing the higher per caps from consumers, the pent-up spending or revenge spend as some folks internally refer to it, that has been most pronounced in sports and leisure, but in other sectors as well where we have the consumer spending. That has continued throughout the first half into the second quarter. We haven't seen any real impacts from that yet.

Now that being said, the overall environment's changing from an inflationary perspective. To what degree that changes consumer behaviour going forward remains to be seen. But thus far we are still seeing the heightened spin in the per cap cheque averages.

Tom Truckle - Jefferies

Great, thank you.

Dominic Blakemore

Thank you very much, thank you all for joining us today and your questions. We look forward to speaking to you at the Q3 results in July.

[End]