

# Compass Group 2022 Full Year Results

## Presentation

**Dominic Blakemore**

**Group Chief Executive Officer**

Good morning, everyone. As usual, I'm with Palmer, our CFO. We're delighted by the Group's performance, which has surpassed our expectations. We emerged from the pandemic as a stronger and more resilient business and reached the important milestone of revenue exceeding 2019 levels.

Organic revenue growth was 37.5%, benefiting from excellent net new business growth, which accelerated through the year to over 7% in the second half, as well as a strong like-for-like volume recovery and good levels of pricing. In Q4, Group revenue was 116% of the 2019 level, with B&I recovering particularly well at 106%.

All sectors continue to trade strongly and although we're conscious of the challenging macroenvironment, we're not yet seeing any consumer weakness as we continue to demonstrate value against the high street. Margin improved by 170 basis points to 6.2%, despite mobilisation costs and inflationary pressures and we doubled operating profit to £1.6 billion.

The outsourcing environment has never been stronger, with operational complexities and inflation continuing to drive increased outsourcing. We're successfully capitalising on the resulting growth opportunities with our market-leading culinary offer and strong ESG and digital capabilities, so our prospects for accelerated future growth above historical levels are exciting.

For 2023, we expect organic revenue of around 15% and an operating margin above 6.5%, resulting in profit growth above 20% on a constant currency basis.

Lastly, reflecting our confidence in the business and positive outlook, we are announcing a further share buyback of £250 million in the first half, taking the total program to £750 million. Let's now move to Q&A.

## Q&A Session

### **Jarrold Castle - UBS**

Good morning, everyone. I guess just in relation to current guidance and then a little bit looking further out, your exit rate margin 6.7% and you're kind of saying now 6.5%. I guess in relation to the 6.7%, should we at least expect the margin for 2023, at least the exit rate, to be higher than that by the time we get to Q4?

Secondly, in this more medium term, Sodexo has been talking about a margin at least 50 points higher than pre-COVID levels by 2025 and organic growth in 2024/25 6% to 8%. I guess Compass has historically always done better than Sodexo, so (1) relative to that margin guidance how should we be thinking versus your 7.4%? Relative to the organic growth guidance for 2024/25 do you think you can still be the market leader on that front?

Then just lastly on M&A, you're obviously giving another £250 million back to the market. Should we read anything into that in terms of M&A opportunities that you're currently seeing? Thanks very much.

### **Dominic Blakemore**

Thanks, Jarrod. Why don't I take first the medium-term guidance question and I'll ask Palmer to comment on 2023 margin guidance and capital allocation. So I guess the first thing to say on medium term guidance is it feels a very uncertain world to be making commitments for the medium term, so I think that we are appropriately conservative in that environment.

I think the other thing to say is it's quite difficult to make forward predictions on growth, given the impact that both pricing and volume recovery are having on current run rates. I think if you set those aside though and assume that at some point pricing and volume will return to more like pre-pandemic levels, I think the real delta in our growth story comes from what's within our control, which is the net new contract wins.

Again, if you recall pre-pandemic, our net new contract win rate was around 3%, you'll see from the results that we've published today that run rate is more like 6% in the second half and into the first half of 2023. That's being achieved by strong retention, one to two points better than our historic rate, as well as a higher gross new win rate which is 20% stronger year-on-year.

So I guess the point for us is if we can sustain net new at two to three points higher, that could and should be additive to that historic growth rate we enjoyed of around 6% and that would mean our organic growth rate could be mid to high single digit.

In terms of margin guidance, at this point we still see no reason why we can't get back to pre-pandemic margin levels. I think the rate and pace of that margin recovery will really be dictated by the very strong levels in net new business. Those net new business levels I just quoted are twice as strong as anything we've seen before and therefore come with both mobilisation and growth investments, which we think is critical and very positive for the long-term strength of the business.

If we can grow at the rates that we're describing and restore our margin to pre-pandemic levels, we'll be trading with EBIT significantly higher than pre-pandemic. I think the other thing in the mix I'm sure Palmer will reference is just around inflation. When we look into 2023, at these elevated levels of inflation there is inevitably a margin lag. That hopefully becomes a tailwind as we see margin start to come down and will give us the benefit in the margin recovery journey.

So at this point we also don't see pre-pandemic margins as a ceiling in the medium term. But we really do need to see how we trade through those two factors and particularly, as we've always said, we will bias for balanced strong top line growth across the business because we think that's the most important. Palmer, do you want to talk about 2023?

### **Palmer Brown**

In terms of the fiscal 2023 margin progression, you're right, Q4 exit of 2022 was 6.7%. A bit of seasonality and the like in that, so we view 6.5%, that second half margin of 6.5%, really as the foundation that becomes the floor that we see for fiscal 2023.

When we look at fiscal 2023, we expect the first half to be flattish compared to that floor. We've got strong mobilisation in education in Q1. Dom referenced the net new business, the mobilisation costs that are there, keep in mind that accelerated through fiscal 2022 and good momentum into 2023.

When you look at that top line growth, if we use 15% as just a benchmark, we expect a little over a third of that to come from net new business, which as you know has a margin drag to it. About a third of it would come from pricing and there's a bit of a timing drag, just as Dom referenced, that we should expect to make up later. Then you have like-for-likes making up the rest, which we would expect some progression from.

More importantly and most importantly, frankly, is the strength of our top line that produces some nice year-on-year profit growth. So we're looking at over 20% on a constant currency basis and the progression of the margin in that profit growth in the second half will really depend on some of those factors. If we see inflation taper a bit in the second half, if we see the mobilisation costs normalise, if we see some stronger like-for-likes, I think you should expect to see some more margin progression.

In terms of capital allocation, which is - M&A is a part of it, we finished fiscal 2022 with leverage of 1.3 times, so squarely in the middle of our target range. We feel very good about the state of the business going into 2023, the strength of the cash flow generation that the business has, but also cognisant of some uncertainties on the horizon.

We're not necessarily seeing it in the business, to be clear we're not seeing it in the business at all right now, but I think we're all cognisant about what might be on the horizon in the second half of the year. So we think remaining in that mid to low end of the leverage range is prudent.

That's why you see us land on the £250 million of buybacks in the first half. We think that will have us at a leverage of 1.3 times at the half year, which gives us a lot of optionality for M&A, for more investment in the business, but potentially for more shareholder returns.

We think that's the prudent place to be and we'll keep in mind the context as we go through the first half of the year and we'll have some decisions to make at the half year.

### **Jamie Rollo - Morgan Stanley**

Thanks, morning, everyone. Three questions again, just all on the guidance really please. The first on the margin guidance, I appreciate there's dilution from passing on costs and the contract mobilisation, but are you seeing any underlying pressure on margins from things like just underlying cost inflation or layoffs in the tech sector, et cetera? Or is that flatlining and margin really just the dilution from the pricing and contract wins?

Secondly, you described the 6.5% guidance as a floor, so it would be useful to know what a ceiling might be. If we do get that moderation second half of the year, you used to talk about towards 7% margins for next year, is that a reasonable bookend?

Then just on the sales guidance, up 15% would give FY23 at about 121% of 2019, which is not much improvement from Q4's 116%. I appreciate the volume recovery is largely done, but should that guidance not be also above 15% rather than 15% like the margin guidance? Thank you.

### **Dominic Blakemore**

Jamie, thank you for those questions and obviously I think it's fair to say precision is challenging given the amount of uncertainty in the environment at the moment. But just a couple of thoughts and then maybe Palmer can give a bit more colour.

I think it's important to say right now we're not seeing recessionary pressures impacting the business either with regards to the consumer spend or the layoffs you describe in the tech sector. Whilst we've seen some announcements being made, I think there are a couple of countertrends there.

One is we're still seeing a strong return to office, which you saw in our fourth quarter B&I numbers, which we do expect to continue. So potentially if there are slightly lower headcounts then that may slightly moderate the B&I growth, but we still expect it to be strong.

In addition, I think we are seeing a number of other firms in what is still a war for talent and one of the drivers of growth in the business, picking up some of those individuals, which means we may see headcount growth in other parts of the portfolio, as it were.

With regard to the guidance, look, I think on margin, yes, it's a floor. We said we'll be above 6.5%. As you've heard Palmer say, the two main factors in that absolutely are managing inflation and the scale of our net new business growth and the relative acceleration.

As you've seen from today's presentation, it's accelerating quarter-on-quarter and therefore the level of mobilisation is also increasing quarter-on-quarter, which is obviously again we repeat, super-positive, but does mean that we have to be thoughtful on the margin impact in the short term. Yes, it's a floor, where could it land?

If we have those factors as Palmer described go in our favour in the second half, we could be in the high sixes for the second half and therefore you can figure out the full year impact, therefore, would be more positive. Yes, we do anticipate that the trends through the course of the year will help us towards the 7% and beyond as we go forward.

Just on sales, again 15%, you're absolutely right, that will imply a slight improvement on Q4. Q4 had some benefit from seasonality within it and again we'd like to start the year as we often have done, at a point of thoughtful conservatism that gives us the opportunity to do better. But also, to weather any potential impacts that we may see from changing conditions.

### **Leo Carrington - Citi**

Many thanks, morning. Two questions please. In the presentation you mentioned the opportunity from vending and delivered in, just something you've been speaking about. But given this is effectively a new market for Compass since the start of the pandemic, is it possible to quantify what kind of boost to growth midterm can be attributable to this category, now that you've got more experienced in post-pandemic client needs? Perhaps if you could frame this in terms of your answers to the first question.

Then secondly, in terms of the solid improvement in European retention rates, increasing retention rates have been a feature at your large European competitor. Is it fair to say there's structurally lower churn in European contracting across the entire market? Or is there a dynamic where clients are choosing to award more contracts to the largest operators rather than locals? Or do you see the majority of this trend simply due to improvements Compass has initiated? Thank you.

### **Dominic Blakemore**

Palmer will take the vending question.

### **Palmer Brown**

Just to be clear, we've had a strong vending business for a long time. Actually, when you look at the origins of Compass in North America and the US, it's actually the vending business that dates back further than anything else. So we've had the vending business for a while.

It's evolved over time, especially starting probably seven, eight years ago or so, we've been getting more and more into the micromarket piece and some of the common theory solutions, the central kitchens and the like. That certainly did accelerate through COVID, just as you referenced there, I think it's just some of the dynamics that have been in play.

Then we've been factoring in more the delivered in solutions really across a number of sectors, education and B&I being the big ones. I think those are factors that you see within the net new acceleration. There are a number of factors that go into that. I'm not sure we got a really good feel for the quantum of additional growth as we go forward, but when you hear us talk about the expectation that we have to see revenue and profit growth above historical levels in the short and medium term going forward, this would be just one of those components that we would view there.

### **Dominic Blakemore**

Thanks, Palmer. On the European retention point, I'm sure others like we are, are very focused on self-help and therefore how we can improve through better processes our own retention levels. I think there's a few things that we've been able to do in Europe through the deployment of tech that have helped us with that.

We're obviously now deploying CRM for full client insight and data. We have NPS rolled out at two-thirds of our estate, which allows us to get consumer feedback in real time. We've also got something called Compass client insight, CCI, which is giving us real time insights into client feedback which allows us to of course correct immediately, rather than waiting for any quarterly reviews that we might have with clients.

We believe that those are helping us to improve the operational quality of our business and in turn, helps us improve our retention rate. You've seen today in the presentation the strength of that, which we're very pleased with. Is there less structural churn? I do believe that clients are more minded to work with existing providers and with bigger providers because of the complexity and trust issues that we've referenced again today.

So I think those do help us and I think you're seeing it manifest itself in the results. For us to have improved from what was nought to appoint a net new CAGR to 4% in Europe is incredibly pleasing. In part retention, in part better new business, the portfolio and pipeline looks strong as we go forward and we do believe that there is still a significant element of self-help which can continue to sustain and improve those trends.

### **Palmer Brown**

Just to add, I know your question really focused on the retention part of it, but when you look at the net new business overall, the new business wins, we think that's primarily a function of self-help initiatives, a lot along the lines that Dominic just referenced.

So both components of net new, the new business wins and the retention within Europe are predominantly based on our growth initiatives. Just as you heard Dom reference too, we think there's a lot more we can do and that gives us, I think, faith in the sustainability of those strong growth rates.

### **Vicki Stern - Barclays Capital**

Hi, morning, just firstly on volumes, I know we'll probably stop talking about volumes on a pre-COVID base after this quarter, but where did you land on that in Q4? I think in Q3 you've been 8% below. What does that reflect now?

I think you've talked a lot about still some drags in healthcare, drags in education even and obviously the B&I. Did you exit Q4 at what you think's the right sort of level? Or on that basis there could still be some sustained volume improvement, putting aside obviously risks on job losses and things?

Then on signings, I think you normally have a decent line of sight. You've referenced it there actually, Dominic, on pipeline, if you could just share with us what you're seeing as we look out over the next six to 12 months. Any reason at all to think that the sort of elevated level of signing pace you're seeing at the moment should come down at all?

Then just finally on margin, you obviously talked about the drags and on the net new side, but teasing that out, if we were to stay at this 6% net new level, all else equal, but we're lapping that comp and we're entering 2024 already with a decent level of mobilisation in the base from this year, can you help us understand a little bit that margin evolution? Just as it starts to become the norm to be at that level of net new rather than obviously this ramp up that you're talking about at the moment, which definitely has quite a big suppressing effect in the short term.

**Palmer Brown**

On the volumes piece, yes, we did see a big step up in volumes through the year and certainly into Q4 we saw nice acceleration in B&I in particular, but also sports and leisure and education. You're right, Vicki, it gets to be quite difficult to nail that, but we think the base like-for-like volumes are somewhere in that 95% to 96% range.

I think the question is how much and the pace of that ongoing recovery is there. We actually think that all of the units that will reopen are reopened and that's the vast majority. I think there's still a bit of return to office, this is happening certainly in B&I, you heard us reference the impact in the tech and some of the other industries there.

Within healthcare there's still a bit of retail certainly within education, some catering and some retail areas. It's still spread out a little bit but it's mostly on the B&I side is where we're seeing it.

**Dominic Blakemore**

Thanks, Palmer. On signings, the pipeline at this point looks as good as it did a year ago when we reported record new business levels and 20% up on the previous year. So we would hope that those levels are at least sustainable as we look forward into 2023.

Then with regard to margin, Vicki, I think this probably - if you take maybe 6.5% as a start point compared to the 7.4%, there are probably a few drivers of that difference. They're perhaps not quite equal but you've got the drag of new business, you've got the drag of inflation and then you've got the investment that we've put into the business.

I think as new business and inflation normalise, that gets us above the 7%. I think beyond that it's all about the choice of how much investment we choose to put in the business for accelerated growth and at what point we then get the overhead leverage for that investment and therefore make progress back to the pre-pandemic levels. I think we can't call exactly when and how that's going to happen.

I think the first thing is we probably need to see the acceleration in new business moderate, but an acceleration of new business is positive, of course and then start to see inflation coming down a touch. At the moment, we expect first half 2023 inflation to be at the same level as second half 2022, which was broadly in the round gross inflation of 9%, food in the low double digits, labour, mid to high-single digits. If those continue, then I think that is what may slow us a fraction on the inflation side. We expect to see that as that comes down become a bit of a tailwind, which helps in the equation I've just described.

**Palmer Brown**

Within the net new business, you've really got two components of new business that drag on margins. You've got mobilisation costs that are expensed in period, and as new business is accelerating, those mobilisation costs don't normalise. It's once it moderates is where you get the normalisation. But not only that, the margin progression within a contract increases over time.

So even absent the mobilisation costs, we see increased margin progression as we get to be more efficient, learn the account much better. A lot of times we don't really see that materialise until 12, 18, maybe 24 months beyond. It's very much a case by case, contract-specific item, but that has a bit longer of a burn there.

**Female**

That's really helpful. Thank you.

**Richard Clarke - Bernstein**

Hi. Good morning. Three questions, if I may. Just starting off with inflation, when inflation was accelerating, you talked about a lag effect, that it takes time to re-address the pricing to reflect that inflation. When inflation begins to decelerate, can that actually become a bit of a margin tailwind for you? Can you actually benefit from that, because you're increasing prices by the lag effect from that? Maybe just how does the dynamic work from that in a decelerating environment.

Then the second question, just on CapEx, you did a fairly low amount of CapEx this year. You're guiding to that going back to 3.5% next year. Is there specific spend in that number or is it just that the market is becoming more capital intensive again, year on year.

Then thirdly, just following up on Jamie's question on the tech sector, we hear about lots of cost savings going on at Alphabet, et cetera, removing the free sushi. Are you seeing some of those impacts, and maybe how important are those contracts to Compass at the moment?

**Dominic Blakemore**

So let me take the first and the third, and Palmer can deal with the CapEx. I think, Richard, you described exactly in your question how we see the impact of inflation. As it's increasing and there's a lag in our pricing, there's clearly a margin lag. As inflation starts to decelerate and the run rate of pricing overtakes it, we see the benefits. That lag depends on contract types and structure and will be different in different places.

Right now, I think importantly, we're seeing inflation at the same levels as it was. We're not yet seeing that deceleration occurring. Right now, we would expect that inflation to continue at these elevated levels for the first half, to the best of our knowledge, and then start to hopefully see that come down in the second half, which is one of the reasons we expect to see the margin progression in Half 2.

With regard to the tech sector, again, the tech sector has been fantastic for us. It's been a great part of our B&I portfolio in North America. It's around 5% to 10% now across the [peaks], and our contract types would be varied. Yes, there's cost-plus, but there's also P&L arrangements within that. Clearly, as cost becomes a critical factor to those clients, we are willing and able to work with them to put the right cost structures in place going forward, and we think that that is also ultimately neutral to our P&L.

What we have to do is obviously have the variability of the model that should we see volumes fall, we can protect those, and obviously we would be taking some cautious views of what that impact could be in the year ahead. As you heard me say earlier, we're also seeing a number of those companies grew their headcounts significantly through the pandemic. We're actually yet to see the higher headcount numbers return to office, albeit they may well then be adjusted down as some of these factors impact.

So we still expect to see growth in the tech part of the B&I portfolio as we get the return to office, perhaps not at the levels that were earlier anticipated. So still, I think a positive overall, and as I described earlier, we're seeing lots of indicators that other

firms in other sectors are keen to acquire some of that displaced talent, which we may see showing up in positive volumes elsewhere.

### **Palmer Brown**

In terms of the CapEx, the 2.7% this past year was lower than anticipated and lower than what we view our normalised model. Nothing much to really read into that, timing as much as anything. We do expect that to return to 3.5%. We don't really view it as increased capital intensity. If you want to look at it year on year, by definition, it is, but we view it as more normalisation. In fact, if you look at the overall capital intensity relative to the growth rates, I think you could look at it being quite favourable, the way we're progressing.

In terms of where we're spending it, it's still the vast majority on client-facing items. It's shifted a little bit more towards digital, ESG, some things of that nature that are frankly becoming more important to clients. But still, the vast majority, 75% or so, on client facing.

### **Richard Clarke - Bernstein**

Excellent. Thank you.

### **Jaafar Mestari - BNP Paribas**

Hi. Good morning. I've got three questions, if that's all right. Firstly, just on the pipeline, you said as good as a year ago. Just wanted to clarify if we're talking like last year, £8 billion, I think was the number, £\$5 billion North American, £3 billion in Europe, or if there's been any granular change within that.

Secondly, on your revenue guidance, the breakdown you gave, one-third of it from like-for-like volumes. I'm just curious how much of this plus 5% is basically just annualising where you ended the year versus where you started the year, versus how much incremental volume improvement you expect from the September levels.

Lastly, on retention, how would you describe the 2022 and 2023 renewal activity? One of your competitors mentioned that they had a higher than usual number of contracts to renew in '22. You'll have a smaller than usual number of contracts to renew in '23 for example. Is there anything like that for you, or is it just average followed by average?

### **Dominic Blakemore**

Let me just quickly take the retention. I think we would say '23, like '22, like '21, has been broadly the same percentage of contracts which have fallen for renewal. We don't - the lumpiness of the portfolio generally tends to blend itself out into the average. So we think it's more of the same, which is positive. On the other two points, Palmer?

### **Palmer Brown**

Yes, pipeline, we look at pipeline both on a gross basis and on a weighted probability basis. Personally, I view the weighted probability is more indicative, although it does have subjectivity built in. We provide some guidance as to what that should look like. But we'd like to see a pipeline at least two times as large as the new business win expectations on a weighted probability basis, and we are seeing that in all of the regions.

I think it's a combination of a lot of the self-help initiatives that we've talked about here, as well as some of the outsourcing dynamics that are taking place. When you look at the big step up in the sources of new business, 45% of our new business wins are from first-time outsourcing. Again, that's a significant step up from the historical 30% or so there. The pipeline continues to be very, very strong, and we have expectations that that will continue.

In terms of the like-for-like revenue that's there, we do have some strong growth that comes into fiscal '23. We think roughly half or so of the like-for-like expectation in '23 is a roll, and then the remainder, in all honesty, is a bit of a question mark that's there, and it's factoring into some of the guidance. Just to be clear, when we're looking at that, if you want to use 15% as the benchmark, and you're looking at net new above a third and pricing there at, the like-for-like we're looking at is a little bit less. That's the remaining gap, and it's the combination of those three that really produce that top line and the margin result as well.

**Jaafar Mestari - BNP Paribas**

Alright. Thank you for the colour. Thanks.

**Neil Tyler - Redburn**

Yes, good morning, thank you. Just a couple, please, left. Following on from a bit of clarification on the previous question, does that - the split of net new obviously has an impact on the margin progression, so within that, slightly more than a third of the revenue growth comes from net new. Should we broadly assume 96% and 10 as the components, and no great difference therefore in that effect in margin year on year? That's the first question.

The second question, just the source of new wins. I wonder whether you could talk a little bit about whether there's been any sequential change in the source market from which you've been winning new business, especially first-time outsourcing, over the course of the last 12 or 18 months?

**Dominic Blakemore**

Thanks, Neil. On the net new point, yes, I think you're broadly right. I think what's important is, though, how that looks half on half, and again, I think it goes to the point of the accelerating net new that we'll see in the first half of '23, which is also an accelerating gross new, which is where the higher levels of mobilisation spend comes from. So it's not just the absolutes, but it's the mix half on half that impacts that. Then on new business source, I think as we said, broadly, 45% is coming from first-time outsourcing.

We're actually seeing that across all sectors, and I don't want it to be a bland answer, but we're seeing first-time outsourcing and new opportunity in B&I just as much as we are in healthcare and education. That's been broadly consistent for a while now, and that's what's also exciting, because we're not over-reliant on particular sectors, albeit we still see lots of opportunity in healthcare and education.

**Neil Tyler - Redburn**

That's great. Thank you.

**André Juillard - Deutsche Bank**

Good morning. Thank you for taking my questions. One of them has been already answered, but I just wanted to come back on the correlation between the different type of contracts you have, inflation and guidance, just to have a clearer view. Could you just give us a clearer view on where you are in terms of type of contracts and if you came back to the level you were at before the crisis?

Second question, on the balance sheet, so 1.3 times net debt on EBITDA is a comfortable level if I understand well. You keep some margin of manoeuvre, but could you give us some more colour about M&A, share buyback and dividend that you could consider and the allocation of cash? Thank you.

**Palmer Brown**

In terms of the contract structures, we are pretty much back to historical levels in terms of the base contract structures. I will say, though, that within the shift from some of the fee contracts back to the P&L contracts, we still have elevated subsidies from clients across the board. So the subsidy level would be a bit higher than what it was historically, and that's continuing to normalise as headcounts and volumes increase. It's not a perfect correlation. Ideally, it would be, but that is - that's happening over time, but in terms of the base contract structures, it's pretty much how it's been historically.

In terms of the balance sheet, certainly where we are gives us a lot of optionality, depending on the landscape. Yes, we're looking at M&A opportunities. Frankly, we're looking at M&A opportunities in all regions. We'd like to think that some of them can materialise. We've always been disciplined about that in the past, and certainly that won't change. We're investing in the business to take advantage of all the opportunities that we see, and then to the extent that we have any excess, then we'll return to shareholders. We're cognizant that we are in the mid to low end of the range on a forward-looking basis.

We think that's a good place to be, and we'll have some decisions to make, but it'll really be based on those different variables as the year unfolds.

**André Juillard - Deutsche Bank**

Do you have any envelope in mind for M&A or nothing special?

**Palmer Brown**

Nothing special. I don't think you'll see anything massive from us. We do view M&A as part of our strategy, and it really comes back to the core question of how does it help us grow? When we're looking at M&A opportunities, certainly, we've done a good bit of them in North America. We're starting to look at them increasingly in other places, but it's all about how does it help us grow, and then within our disciplined approach, but we don't have any set expectations.

**André Juillard - Deutsche Bank**

Okay, and last question if I may, about dividend, can you guide anything on a midterm level of pay-out or something like that?

**Palmer Brown**

It's our policy that we've stated, where 50% of underlying earnings on a pay-out basis, and we expect that to continue as we go forward.

**André Juillard - Deutsche Bank**

Okay, no change on that side.

**Palmer Brown**

No change.

**André Juillard - Deutsche Bank**

Thank you.

**Joe Thomas - HSBC**

Good morning, both of you. A couple of questions, really regarding the risks to the economic outlook. As the business has evolved over time and you've done different activities and specifically thinking about stuff like vending and delivery, I'm just wondering whether you think that the operational gearing dynamics of the business have changed. If you could give a bit of colour around that, that would be helpful, please. Then I suppose related to that, as well, you've talked about the subsidies that are coming in from clients just now. I just wonder, when we think about like for like changes to workforces in the period ahead, whether there's any difference in contract protections or what contract protections you've actually got in place to see you through that period? Thanks.

**Dominic Blakemore**

Thank you for those questions. They were both really interesting. First of all, in terms of risk on economic outlook, I think there's a couple of things to stress here. Firstly, as we've shown in the presentation today, if we compare our portfolio today to the portfolio of 2019, our B&I exposure has reduced from 50% to a third. Why is that? It's actually been the very strong growth we've enjoyed in the other sectors, as well as the slower recovery from the pandemic. We also think our DOR sector is more resilient now than it was then, because it has more exposure to on-going production as opposed to lumpy construction projects.

So when we add that all up, we think we are more resilient and more defensive than we've been before. In addition, and I know you know this, but it is worth saying, we think that those cost pressures on clients are an accelerant of outsourcing. So if you look back to 2009 and beyond, what happened is our revenues held up and didn't actually turn nothing, because the acceleration in net new offset the volume declines within B&I. Then actually, over time, we then saw those volumes come back, which benefitted the business.

That was particularly marked in North America, where we continue to invest in winning new contracts through the cycle, and that will absolutely be our strategy should we detect widespread recession as we go forward.

In terms of operational gearing, we learned a lot through the pandemic about how to vary our cost base, and therefore, I think we've got - we're much more agile or fleet of

foot in terms of how we would protect unit and operating margins through any volume downturn. I think we're better placed to do that than we ever have been.

Then to your last point, I think the contracts we've got protect us better now than ever. Now, I can't call out the percentages of that, but we learned through the pandemic, volume protections are critical. Perhaps where the industry has gotten a little bit aggressive, in a benign economic environment and now I think we've seen we have the right to protect contracts in a way we haven't before. So I think those protections are in the contracts should we see material downturns.

So I think we feel, looking out today, to the extent that we have any recessionary impact is shallow or industry specific or country specific, we feel pretty good that we can manage through it and that we can see an opportunity beyond that for growth.

**Joe Thomas - HSBC**

Perfect. Thank you.

**Operator**

Thank you. With this, I'd like to hand the call back over to Dominic Blakemore for any additional or closing remarks.

**Dominic Blakemore**

Thank you all for joining us today. I'd like to wish you a restful and enjoyable break over Christmas, and we will talk to you again on the 9 February, regarding the first quarter, in the new year. Thank you.