Good morning, everyone, and thank you for joining us. As usual, I have Palmer with me here today. We're very pleased with our first half results. We're establishing a new track record of strong performance for the Group. Profit for the first half was over £1 billion for the first time, from strong organic revenue growth and margin progression, which were both ahead of our expectations. We're pleased with the balance of revenue growth across the business, with all regions now delivering net new above 5%. This represents a sustainable improvement in Europe's performance over the last 18 months, as the region continues to benefit from the focus on growth.

Margin improved by 80 basis points to 6.6% year on year, and by 10 basis points from the second half of 2022. We continue to digest mobilisation costs from new business wins, whilst managing heightened levels of inflation. With strong cash flow and leverage of 1.1 times, we've today announced an interim dividend of £0.15 per share and a further £750 million share buyback, to be completed in 2023. This takes the total programme to date to £1.5 billion.

In terms of outlook, we're raising our full year guidance and now expect full year profit growth towards 30%. Organic growth is expected to be around 18%, with our margin in the range of 6.7% to 6.8% and towards 7% in the second half. With around three-quarters of our profit in North America, we'll start reporting in US dollars on 1 October 2023 to reduce currency volatility. To be clear, we have no intention to list in the US.

Looking ahead, we're confident about the growth prospects for the Group. The food service market and the large structural growth opportunities are very attractive. Inflation, operational complexity and changing clients and consumer expectations are driving outsourcing trends which we believe are here to stay. We believe the Group is in the best shape it's ever been, and with our value-creation model intact, we're establishing a new track record of performance.

Longer term, we expect mid- to high single-digit organic revenue growth and continued margin progression, delivering profit growth ahead of revenue growth. Our strong cash generation, robust balance sheet and disciplined capital allocation will continue to drive compounding earnings per share and shareholder returns. Now let's turn the call over to your questions.
Q&A Session

Vicki Stern - Barclays

Yes, morning. Just firstly wanted to start on the signings, what is the signings pace running at now? Still in line with the levels of last year, or is anything fading there a bit? I noted in the presentation you're talking about a 4% to 5% net new, compared with the 5.7% you did last year. So is that because you're seeing anything fade on the signings, or it's just a bit higher revenue base in terms of your expectations there? Obviously, still substantially above the 3% you were doing pre-COVID, but yes, just trying to understand how much of that 5.7% last year was exceptional and what the run rate's like going forward.

Secondly, on inflation, so your two large competitors are flagging higher inflation, and they're paring back their margin expectations. Obviously, today, you're lifting your margin expectations, so could you just help us understand what you're seeing in terms of inflation headwinds right now and how it is you're able to offset those better?

Then finally, on CapEx, I think this is probably now the third year in a row where CapEx seems to be coming in below that 3.5% level. Obviously, you're guiding now slightly below for the full year, but could you just remind us why CapEx is coming through below, and if there's a case for now expecting that CapEx to remain sustainably lower than it was in the past? Thanks.

Dominic Blakemore

Thanks, Vicki, and good morning. In terms of the signings pace, yes, look, on an LTM basis, at the end of the first half, we were around £2.5 billion, so broadly in line with the prior financial year on an LTM basis. If you recall the first quarter of '22 had a couple of very large contract wins in North America, with over $100 million, which have contributed to the in-year performance in '22 that we saw in the 5.7%. In the first six months, the run rate of six months was 1.4 billion of new contract signings, so a strong first half performance. Based on the pipeline that we see today for the balance of this year, we have every expectation that we'll have another record year of new business in 2023 on a full year basis.

Just to add to that, when we look at the 5.7% in the prior year, probably worth saying we had a number of stored up openings that opened simultaneously, so a couple of years of wins, particularly in sports and leisure, that opened in the second half of last year and therefore contributed to the very strong second half in the year new business run rate and also contributed to that 5.7%. So at 5.2% year to date, we're very, very pleased. We've always talked about we're now a business that's 25% bigger than 2019, so if we can sustain one to two points of acceleration on that historic 3% and obviously our ambition is to be in the higher ends of that range, and we're above that right now, then we would be very happy. That's what's underpinning our expectations of mid to high single organic growth over time, and as inflation subsides.

So hopefully that gives you some colour on the gross new business and the signings pace. Palmer?
Palmer Brown

In terms of inflation, it's one of the biggest surprises, frankly, that we've seen this year has just been that inflation remains fairly high at this point. At the beginning of the year, we thought that it would start to subside as we started to lap high rates of inflation in the prior year, but that's not happening. We're seeing a blended 9% or so across the entirety of our business. That's with our main inputs of labour and food and across the regions as well.

That's starting to stabilise a bit. Food cost is starting to stabilise a bit within the US. But it's still accelerating in Europe, so that's something that surprised us a bit. When you look at the margin progression year on year, that 80 bps of margin progression, the bulk of that would be operational leverage, just driving that top-line growth and leveraging our above unit costs within that.

We're pricing to try to keep pace with inflation. Our pricing within the half was about 7%, so our model is to mitigate roughly a third and try to price for the remainder. We're always giving our clients options. We need to show the value for clients and consumers relative to the High Street. We think that value proposition is expanding, so we're able to deliver that.

One of the things that's helping is supply chain is starting to normalise a bit. We think that the supply chain is roughly 90% normalised versus a supply chain that's been largely disrupted in the past, so that is helping us a bit and hopefully it can help us as we go forward.

In terms of CapEx, you're right, Vicki, CapEx, 2.3% in the half, that's lower than what we anticipated, the model of 3.5% or so. Given that, we are lowering our CapEx expectations for the full year to somewhere between 3% and 3.5%. We think the bulk of that is timing related. We know of some additional timing expenditures that will occur in the second half of the year. There's also some opportunities for further investment that of course we'll take advantage of when they present themselves.

There's a bit of a potential mix shift we're keeping an eye on, but it's a little too early to tell at this point. We think the bulk of it's timing related, so we're not necessarily changing our model at this point.

Vicki Stern - Barclays

Thank you. So just to follow up on that, the margin point, I think back at the full year results, you talked about bridging the gap from 6.5% to 7.5%, 40 bps inflation, 40 bps net new and 20 bps of other. Obviously, you're at 6.6%, not 6.5%, but is that still the right sort of bridge between the different components?

Palmer Brown

Yes, there or thereabouts. It's going to change a little bit, but it's there or thereabouts, still.

Vicki Stern - Barclays

Great, thanks very much.
Jamie Rollo - Morgan Stanley

Good morning. I have three questions as well, please. First of all, just on margins, you're going to be around 7% in the second half, and your net new is slowing a little bit and in the US it sounds like at least cost stabilising. So do you think you can get back to 7.5% as soon as next year, or was that a bit too early?

Secondly, I think this is the first time you've given the mid to high-single-digit long-term growth figure in writing. I know you've mentioned it on various calls, and you've also said you expect net new to be one to two points higher than pre-COVID. So why not just formally change your pre-COVID guidance from 4% to 6% to 5% to 8%, or are you going to stick to mid to high-single-digit range?

Then on the balance sheet, using your new guidance, it looks like it'll still be pretty strong, at 1.2, maybe 1.3 times at the end of this year, which on a pre-IFRS 16 basis is about one times, so well below the pre-COVID target. Is there any scope to return to your pre-COVID leverage target, which will be about half a turn higher? Thank you.

Dominic Blakemore

Thanks, Jamie, and good morning. Yes, look, on margin, I think the most important thing to say is we see no reason. First of all, we see a path back to pre-COVID margins, and secondly, we believe we can make progress from there. Will we achieve all of that next year? I think too early to tell. The near-term progress will really be dictated by net new and what we see tracking with inflation. We think it's very positive that we'll be around 7% in the second half, and of course that will be our base for further progress next year.

So I think we're very pleased with where we are, and of course, in a business that's tracking 25% to 30% bigger than pre-COVID, with a margin around 7%, we're printing a lot more absolute pounds than we did pre-COVID, which is very important for us to focus on. Also, we think we've shown it to date, seeing the business outside of North America growing above 5% sustainably is very, very important, and we think getting the margin structure right to sustain that in the near term and then enjoy leverage over time is also very important.

So we won't compromise sustaining this very high quality of growth. You're absolutely right, whether we use words or numbers, I think we're in the same place on the revenue guidance, so I think we'll stick with the words for now, but yes, you've interpreted it right.

Palmer Brown

In terms of the capital allocation and the leverage, we've got a capital allocation framework and a leverage target that we think's appropriate for our business in this environment. We think it strikes the right balance between allowing us to invest in the business organically, at whatever the level and the timing that that is, to take advantage of M&A opportunities as they present themselves and then return cash to shareholders. You're right, Jamie, the leverage at the half year of 1.1 is at the low end of the range. The £750 million buyback that we're announcing today over the remainder of the calendar year we think will get us to the midpoint of that range by the end of the fiscal year. We think that's just a good balance for us at this time.
Jamie Rollo - Morgan Stanley
Okay, thank you very much.

Jarrod Castle - UBS
Good morning, everyone. Also three for me. The rest of the world margin went backwards, and you highlighted inflation as one of the issues. Is that behind us? How should we think about the second half, and indeed, '24 in terms of rest of the world margin? Then secondly, you mentioned a strong retention rate, but I actually couldn't find that rate in the release. Can you just give some colour on where things stand on retention at the moment?

Then just coming back to organic growth over the medium term, maybe this is nuanced, but what is the classification of medium term, and at some point, will you start to go back to the 4% to 6% organic growth target or rate that you were previously guiding pre-COVID? Thanks.

Dominic Blakemore
Thank you, Jarrod. First of all, in terms of retention rate, the retention rate for the first half was 96.7%, so a very pleasing level of retention. That's been driven by sustained levels of high retention in North America, but also continued strong performance outside of North America, which we're very pleased by. So actually, underpinning the net new of 5% is both an improvement in gross new contract wins and also improved retention, so we're driving it on both fronts. Clearly, we need to sustain that.

When it comes to how long is the medium term for organic growth, look, I think we've introduced a framework which we'd like to think that we can operate within consistently going forward. That said, we're 18 months into strong growth in the business outside of North America. We showed it in today's presentation. It's our twin opportunities and priorities are sustaining the level of industry outperformance in North America, and we've shown you in the presentation how we feel we can do that.

Then, separately, it's really focussing on the growth initiatives and basics outside of North America to sustain that level. We think the marketplace is there. We believe we have the processes. We believe we have the efficiency of offer. We believe we're now monitoring with data in a way we haven't done before. So, look, if we can sustain those levels, can this model become the new normal? That is our - absolutely our ambition and aspiration.

Palmer Brown
With respect to rest of world margin, the biggest driver there is the ripple effect from COVID in the form of labour shortages. Australia, which would be the biggest country in rest of world, and our defence offshore and remote business, which is more pronounced in rest of world than the other regions, each of those are experiencing significant labour shortages there. That's something that we're seeing some early signs of easing, but we think we're going to be dealing with it for a while, so this is not something that's necessarily going to go away quickly. We think we'll be dealing with it for a while.
But just to put it in perspective, though, this 20 bps of margin in rest of world is £3 million, so it's not significant in the grand scheme of things, although it is something we're managing as closely as possible.

**Jarrod Castle - UBS**

Great. Thanks very much, both.

**Jaafar Mestari - BNP Paribas**

Hi, good morning. Two, if that's all right. Firstly, I just wanted to come back on that signings figure. Thank you for sharing. If I'm correct, £2.5 billion is exactly in line with the run rate for last year, and that would imply something like £1.5 billion for the last six months. But I just found it interesting that you flagged how H1 ’22 was helped by a couple of particularly large contracts, but you seem to be running it at exactly the same record high £1.5 billion pace of signings for this H1. So did you find another couple of large contracts? Is it that Europe's really helping? Is it more broad based? Just to confirm the math there on the last six months being as strong as the highest you've shown for the last year.

Then secondly on Europe, I think investors have occasionally seen a strong quarter or occasionally seen a strong half year in Europe. It hasn't always been very sustainable. You talked about some fundamental changes to the processes, et cetera. On the downside, what are things you're doing differently today to make sure that you don't have a bit of a UK pressure, pressure from Germany, the bits that have every couple of years closed problems in Europe? How are they addressed?

**Dominic Blakemore**

Jaafar, thank you for those questions. To be clear, the six months new signings is closer to £1.4 billion than £1.5 billion. But regardless, your point is absolutely right. It's a very strong half, and it's a half that we've achieved very high levels of signings without any individually significant contracts. What that means for us, we believe, is that it's almost a more attractive book, and it's almost a high-quality achievement rather than relying on the big ones. There will always be big ones. They'll be lumpy. But being able to sustain this level with more of the midsize contracts is important.

Of course, within that, North America continues to play its part with a very attractive level of signings and forecasts for this year. But what we're seeing, as we've said, is a very strong performance outside of North America, an attractive pipeline for the balance of the year. As we call that - it leads into your second question, what's underpinning that is a qualified universal opportunity that is 60% larger than we historically had and a win rate that is 50% better than we historically had. Now, those metrics still lag North America, so this goes on to answer your second question. It's why we believe there's even more opportunity.

We believe there's still a bigger universe for us to identify, which means we can qualify a high-quality pipeline, which is bigger than we've ever seen. Within that, we've been much more proactive in understanding the market, rather than being reactive in responding to tenders that come to us. In many ways, we think the pandemic allowed us a foot on the ball moment, to use a sporting analogy, which allowed us to reset our approach. We need to keep working with discipline on that.
I think, look, your point is very fair. We have seen glimmers of improved performance. I don't think we've yet sustained it over 18 months, as we've done thus far, and with our forecast for the balance of this year, we have reasonable confidence that we'll do that over two years. We've now got a database that covers all of our European countries, which is centrally managed.

We have processes and routines and disciplines that weren't in place before. We've adjusted incentives. We've included - we've upweighted our number of sellers. Most importantly, we've changed the mood around growth in a sustainable way, I believe. Within that, we shouldn't underestimate our focus on purchasing excellence in our major European markets means that we feel we can be more efficient and effective in our bidding.

So I think all of those things are coming together and give us a good level of confidence around what we're seeing and that it's sustainable. But as you're absolutely right - if you asked me what is my biggest opportunity and biggest challenge today, it is maintaining this level of performance, and I say there's absolutely an opportunity, but we need to stick to the basics and continue to perform as we are today.

**Palmer Brown**

Just one thing to add there, Dominic. I referenced a number of things on the new business win side of the equation in Europe, but just as important, and frankly even perhaps a bit more important, is the improvement in the retention rate. Over two years, we've improved retention from sub-94% to 96%. Within that, we've improved our pre-emption conversion by a quarter and that's really focussing on the basic processes and trainings. Just as Dominic referenced for the new business, that's applying for the retention side of things to focussing on what we refer to as these micro-inputs, producing these good results, gives us faith that these results are sustainable as we go ahead.

**Jaafar Mestari - UBS**

Super. Thank you very much.

**Leo Carrington - Citi**

Thank you, good morning. Also three questions for me, please. In terms of your exit of those six countries, just in terms of the bigger picture on footprint, is it fully optimised now? Are there other countries that you'd consider exiting? Indeed, regions that you might still need to acquire into to build your footprint, as you did with Fazer in 2019. You certainly seem to have the balance sheet to do so.

Then, secondly, I was interested to see the acquisition of the coffee asset in B&I. Can you just give an indication of what the current offer you have in coffee is? Is there a significant further penetration opportunity into your current set of contracts? Just if you could indicate on the growth so far, have revenue growth from coffee offers in the past decade been accretive to overall Group growth? If so or if not, how might that change?

Then, lastly, on education and healthcare, referencing the bigger opportunity in the presentation, Dominic, can you outline why? Is this to do with your relative competitive advantage or is it because of the outsourcing propensity? Some more colour would be great. Thank you.
Dominic Blakemore

Thanks, Leo. Yes, let me just tackle that last question first. Healthcare and education, I think first and foremost, it's - we called it out because it's the least penetrated or the lesser penetrated strategies of the five in which we compete, so it means there's more opportunity. I think that for us means all of the factors we've talked about, whether it be inflation, labour availability, compliance or regulation, really play into those two strategies, particularly where you see some of the net zero requirements mandated by governments upon those sectors, it can accelerate the outsourcing.

Certainly, in terms of healthcare, typically, you need a bundle, which may include other services like janitorial and cleaning. In the bigger markets, we have those, which means we can play into that space very capably. As we said many times, support - soft support services are almost more valued by the clients for the obvious reasons of hygiene in those environments.

I think when you add those up, they're attractive sectors. But I would say for both, and equally for the subsector of senior living, what we're learning is there are a number of criteria that make those attractive by market. We have to be very analytical in understanding where we want to play and then determining how we play with what offer and how we build the capability or buy the capability, and we're very, very focused on that.

In terms of the portfolio, I'll hand over to Palmer to talk about the portfolio and the acquisitions in coffee in a second. But what I would say is my - one of my big observations, and I've been in this business a while, is we are at our best when we go narrow and deep. There is so much opportunity for us of the core processes, and in our core sectors and some of the adjacencies. That will provide us with the runway for growth for a considerable period going forward. The worst thing we can do is distract our teams with tail markets or countries which don't represent anywhere near the opportunity.

I think the six countries that we've sold or exited and announced in this half represent no more than 1% of our total revenues. I think that says a lot, and if I talk to my head of sales in Europe, he would say, it's freed him up to focus on the three big markets where we can really make a difference. That's really, really important for us.

So, look, we're not complete in doing what we're doing. We will continue to look at the portfolio. We will continue to optimise, and more importantly, we'll continue to do M&A that more than offsets the disposals, to give us access to those core sectors where we believe we can grow faster. All this goes back to the repeated questions of today, to give us confidence we can sustain that level of net new outperformance against the historical levels.

Palmer Brown

In terms of the exits, to Dominic's point, our top 10 countries represent just about 90% of revenue and profit. So that's a fairly long tail that's there, and it's something that we've been taking a look at, we will continue to review as we go forward. But just to frame it, as Dominic said, we're continuing to invest. We're doing M&A, mostly in our core markets. The M&A role from last year and the M&A that we've done this year will more than offset the six exits that we've undertaken. So we think that can be a bit of a model as we go forward. I think just to keep it all in context, we will review the
tail, but we will continue to invest in our core markets, where we think we have substantial competitive advantages and significant growth opportunities.

In terms of acquisitions in North America, specifically, the office coffee piece, office coffee, micro-markets, vending, is all part of our Canteen opportunity. It's a big business. It's a very successful business within the US and North America as a whole, predominantly within B&I, but not all. We have some in education, healthcare and the like. We've seen nice growth over time in that area. B&I has been the biggest driver of the growth in the first half of this year. Certainly, the Canteen growth would be a component of that.

We see office coffee, micro-markets, vending is very much core to our business, is something we've invested in, in terms of infill acquisitions in the past, and something we will continue to look to as we look forward.

Leo Carrington - Citi

Thank you, Palmer. Thanks, Dominic.

Harry Martin - Bernstein

Yes. Thank you. Good morning, everyone. A couple of questions for me, the first one on the B&I performance. We see headlines about layoffs and reduced subsidy levels, but your revenues there are now 16% ahead of 2019, so I wondered if you could give an update on where per capita usage is running, subsidy levels and how sustainable the growth is in that business from here.

Then the second one is really on the long-term margin potential in Europe. You talked about improving procurement practices. As this market accelerates and drives more revenue growth, what are the opportunities for the margin in that business, and does the European business always have a structurally lower margin than the US, even if the scale eventually gets to quite a similar level? Any colour that you have there will be really useful. Thanks.

Dominic Blakemore

Yes, good morning, Harry, and thanks. The B&I performance, we're very, very pleased with the B&I performance. I think there was a lot of concern about the sector as we emerged from the pandemic and its long-term attractiveness. What's underpinned, of course a little bit of inflation, but more importantly, it's been very significant contract wins that has increased the scale of our B&I business. What we're seeing, yes, we are seeing restructurings happening in certain sectors within B&I, but of course that's been right now more than offset by the tailwind of return to office. What we're witnessing is a continued strong return to office broadly in our major portfolios in major cities, Tuesday, Wednesday, Thursday are back to pre-pandemic levels if not higher. Mondays are coming back. The narrative now, I believe from everyone I've talked to in our client base, is greater encouragement of colleagues to return to the office. I think we're all seeing that, aren't we, as we talk and hear about loneliness of working from home and mental health pressures and so forth. We feel very optimistic about our B&I portfolio going forward. In fact, in Europe, we are a largely B&I business with a very significant market opportunity in B&I, and we believe we've learned a lot about
how to adapt our operating model to that environment to win. So, look, we're excited about B&I.

At the same time, it's fair to say it's great B&I is a lesser part of our portfolio today and that we've got greater diversity of sector than we've ever had. I think that gives us greater protections to events as we go forward, so I think all around it's a good thing. Then, look, on the long-term margin potential in Europe, it's probably fair to say we've still got a reasonable delta of improvement to come from the pandemic in Europe.

But that said, and I said it earlier on the call, the most important thing for us is that we sustain the growth we're seeing outside of North America. If we've got margins in the second half north of 7% and we make progress from there, even if that progress is incremental and we sustain the growth outperformance, we'll be happy, because we know that the growth gives us purchasing opportunity. It gives us consumers to retail to. It gives us overhead leverage and sustaining the growth model is critical.

So again, we're optimistic on that point. If we never close the gap to North America, we won't mind, as long as we keep growing our margin in North America as well.

**Harry Martin - Bernstein**

Great, thank you very much.

**Kean Marden - Jefferies**

Thank you. Morning, all. Two quick ones from me. Just first of all, would you call out any particular parts of the business where the outsourcing penetration rates have already contributed a bit more than anticipated over the last 12 to 18 months and any potential laggards? I know you presented some data giving us some insight into market structure over the last 10 years, just were you looking to update how momentum has progressed since we last looked at that data, which I think from memory, reference 2019?

Then, secondly, your comments on your pricing, sitting at a significant and growing discount to the High Street caught my attention. I was wondering if you could expand on that to a great degree, please. Thanks.

**Dominic Blakemore**

Maybe if I just take the pricing point. Clearly, our model is one where we've enjoyed in various different contracts either client subsidy or the fact that we don't have the full range of costs experienced by a High Street operator, be it rent rates, energy, utilities and so forth. We've always been able to price at an attractive discount to the High Street. That depends very much on contracts and contractual arrangements with clients, but as we predominantly pass through pricing associated with just food and labour, that is at a lower level than we're seeing in some High Street outlets, where they've got the full range of costs that they're having to recover. Therefore, whilst we're putting prices up, our prices are going up at a lesser amount than the High Street, and therefore widening the discounts.

We think that makes us more attractive to the consumer, and we're working hard to demonstrate that value that we offer by staying onsite and therefore driving footfall and participation, which we see as an opportunity. Also, it's very clear, that's how we generate clients' excitement and attention, by being able to show how we can in first
time outsourcing not just unlock the 20% to 30% cost advantage that our scale presents against a self-op but also maintain that over time against ongoing higher than historic inflation.

So I think the pricing and the management of inflation is - can be a positive to us both through the consumer and the client lens at this point in time.

**Kean Marden - Jefferies**

Do you have a sense, Dominic, to what extent that pricing gap has widened over the last six months? I appreciate it's difficult to generalise, but obviously you did point it out earlier on.

**Dominic Blakemore**

I'd be guessing because it's so different market to market and contract to contract. But over the last several years, we've taken 5% average pricing. I think we're all seeing what we're seeing on the High Street, aren't we, which is probably closer to an average of double digit.

**Kean Marden - Jefferies**

Thank you, that's helpful.

**Palmer Brown**

In terms of the outsourcing, look, overall with growth, it's been fairly balanced across the sectors. It's been led by B&I and sports and leisure. A lot of the common thinking is that B&I and sports and leisure being mostly outsourced that we don't get much first-time outsourcing that's occurring, but that's not necessarily the case. There is a good bit that's happening in each of those sectors. So it's been fairly broad based overall.

As we look ahead, the biggest structural opportunity is in healthcare and education. We are seeing some pressure in healthcare, particularly in the US. We're seeing a lot of healthcare systems and individual healthcare clients under financial pressure that's there. We think that while it's difficult to manage on a daily basis, ultimately, that presents outsourcing opportunities, because we can provide value propositions and cost savings to clients.

It's not completely unlike what we saw several years ago with the Affordable Care Act that presented a lot of growth opportunities for us in healthcare. So as we look ahead, we think that's an opportunity. But we continue to see good outsourcing opportunities across all of our business.

**Kean Marden - Jefferies**

Thanks, Palmer. Thanks, Dominic.

**Neil Tyler - Redburn**

Thank you. Good morning. A couple left for me, as well, please. I suppose first of all, coming back to the previous question or answer and the source of those new wins, you've mentioned consistently that first-time outsourcing was the lion's share, and we're hearing from your competitors that retention at both of those companies has improved as well. So presumably, there's less attrition amongst the largest players.
But between those two, are you seeing any change in dynamic driven by the operational complexities from midmarket and regional players? That's the first question.

Secondly, the foot on the ball moment that you mentioned, can you perhaps expand on that as to how it's perhaps changed the contract structures? You've been able to alter those to allow yourselves to be more nimble, should costs fluctuate significantly. Then final question, I want to try and ask you to expand a little bit on the Foodbuy business. You talked about the expanding scale and scale advantage. How that has - how the inflation we've seen has altered the size, scale and any numbers you'd care to share, if we compare that business to, in terms of sales, maybe even margin compared to pre-pandemic? Thank you.

**Dominic Blakemore**

Thanks, Neil. Just in terms of that question around competitive dynamic of large and medium/regional, I think you have a point. On the one hand, in this environment, the greatest challenge is for the self-op. In this environment, the greatest opportunity to demonstrate value and quality of our services is for the large players who've got scale and proven processes and tenure and longevity of operator.

So I think it is playing to the strengths of the big right now, and I think that's benefiting all of the bigger players. I think that's perhaps what we're seeing in retention. I think it's perhaps what we're seeing in higher pre-empt rates and perhaps less coming to market that's in the hands of the bigger operators, as it were. I think that's also why we're seeing more first-time outsourcing. So I think they are the two sides of the same coin.

The bit in the middle we don't talk a lot about are the smaller players, and it's a continuum, I think. If you are a smaller player and if you haven't got the buying scale, you're going to get squeezed on your ability to mitigate costs for clients, and that is going to create more opportunity for the bigger players. That said, there are some great businesses in our industry which either have independent USP or something niche that makes them attractive to their clients.

We really like those businesses. We keep an eye on all of them, and they've been, as you know, a great source of growth opportunity for us in the past, whether it was a Fazer or a Bon Appetit or a Unidine, and we'll continue to keep an eye on those businesses as we go forward. But broadly, I think that it's a positive marketplace for ourselves at this point in time. Palmer, on the others?

**Palmer Brown**

With respect to contract structures, the base contract structures are really no different from where they've been historically. But what you might see is a few variations on the fringes, so maybe allowing a bit more operational flexibility, maybe a bit more ability to discuss changes if volumes drop, different scheduling aspects that may come into play. Look, we're in a very different inflationary environment than most folks in this industry have ever seen before, so the ability to deal with that. We referenced some of the pressures in the rest of world business around labour shortages. Just some flexibility in contracts for those type of items that might arise that are outside of our control but yet to try to create contract structures in complete alignment that work with our clients.
So really, within the base structures, you're seeing some of those changes on the fringes there, but overall, from respect to the base structures, really not much different. With respect to Foodbuy, it is an important part of our business as a whole. A lot of folks think of Foodbuy as third-party GPO purchasing, and that is how we think of the model as well. But we're only doing that in a handful of countries globally. It's in the countries where we have more mature markets, more mature processes.

In others, we have just a significant opportunity to improve the base fundamentals. Dominic referenced it earlier with respect to Europe, some of the big opportunities that we have in Europe there. We're not really undertaking Foodbuy in a third-party way in Europe outside of the UK, so that's an opportunity that lies ahead. But the dynamics within the third-party business over the past 12, 24 months have been somewhat similar to our overall business. Those clients are experiencing a lot of operational pressures and cost pressures themselves, so to the extent that we can provide value to them with respect to managing their purchasing opportunities that are there, we think it creates win-wins.

We do that and also create value for our supplier, manufacturer, distributor partners, as well, so it's multiple wins across the platform. We think that can continue as we look ahead. As we referenced, the supply chain is improving. It's mostly normalised at this point, so perhaps a bit more opportunity even as we go forward.

**Neil Tyler - Redburn**

That's really helpful. Thank you.

**Joe Thomas - HSBC**

Good morning. Hello. Three questions from me, a couple really relating to costs and then one on volumes. Just when you think about margins and how they developed in the first half of the year, and versus where they've been historically, can you quantify how much of a drag has been exerted on margins from this acceleration in new business wins and how you'd expect that to trade over time? That's question one.

Question two is just on labour costs, particularly in North America. If you rewind a year, we were all very concerned about it. I don't think you referenced it this morning. Has the shortage of blue-collar workers there now diminished, and what's the outlook?

Then the third thing, you've said that volumes slowed down in the second half of the year. Is that purely comps, or is there any sort of contingency in there for consumer weakness or anything else that you'd care to mention? Thanks.

**Dominic Blakemore**

Maybe I can tackle the second and third and then hand margin over to Palmer. Look, on labour costs and labour availability in North America, it isn't easy. Given the growth we're enjoying and given some of the more heightened churn in frontline labour, it is of course a challenge, but what's a challenge for us is a challenge for everyone, and I think we are managing it well. We're putting new measures in place all of the time which make us a more attractive employer, and we'll continue to focus on that.

So I think we're managing the situation well and will continue to do so and look to make it a point of competitive advantage. In terms of volume selling, it is absolutely a fact of lapping the restored pre-COVID base in the second half of 2022. If you recall, we
were at between 110% and 115% to 2019 in the second half of '22, so we're now lapping that. Our guidance today assumes that volumes will be flat to slightly positive. That's probably how we see it at this point in time.

Palmer, any colour to add to that?

**Palmer Brown**

Just to frame it, the companies, the first half last year on a blended basis was 98% of 2019, second half was 113%, so you saw the big step up in the comps from first half to second half last year. That's the biggest driver of that growth slowdown that you'll see the second half of this year on the volumes thing. Any real volume that we get in the second half we view as a bit of upside opportunity for us.

With respect to the margins, just as you heard from Vicki at the start of the call, just a rough framework, 40% drag from the new business, 40% inflation, and the remainder being investments in the business. However, when you see the new business growth normalising, that will start to subside in terms of the growth drag. So you'll have the mobilisation element of the growth drag start to decrease. There will be a bit of on-going efficiency improvement that occurs in those new contracts that can take upwards to two or three years, even in the bigger contracts, so that will start to subside as we go forward. But that's a rough breakdown and a rough way to think about it.

**Joe Thomas - HSBC**

Thanks.

**Karl Green - RBC**

Yes, thanks very much. I've got a couple of questions. The first one breaks down into a smattering of subdivisional questions. Just on the strategic restructuring cost, can you break down the gross charge, the £99 million, between the country exits not necessarily by country, but the country exits and then the site closures, contract renegotiations and terminations in the UK? Following on from that, what kind of costs should we be expecting in the second half of the fiscal year?

Then, unrelatedly, the second question, just in terms of your longer-term guidance and thinking around organic growth, have you had any thoughts yet around the longer-term impact of ChatGPT and AI on B&I volumes specifically, please? Thanks very much.

**Dominic Blakemore**

Perhaps let me take your second question. It's - along with other factors, it's something that could have a positive or negative effect on volumes going forward. I think what's important, we said today, is we were delighted with the recovery of B&I, but also B&I is a smaller part of our broader portfolio. We're in considerations and conversations with a number of partners right now to understand how AI can improve our own internal processes. It may create opportunity for roles within the tech sector. It may diminish roles in others. I think we have to take that in the roundness we've always done, and again, the broad-based portfolio gives us confidence for the future.
Palmer Brown
In terms of the portfolio review, the non-underlying charge, the bulk of the £99 million that you referenced relates to the UK businesses that are there, addressing those UK lines of business, right-sizing those with respect to the new volumes that are there. The lesser amount relates to the six country exits that happened. With respect to that former category, the right-sizing of the business, we've reviewed not only the UK business but in all the businesses elsewhere, and we think that is all there is to occur there.

So we don't expect any more of that type. With respect to the on-going portfolio piece, you referenced the tail. We talked about it earlier. We will continue to address that tail as we go forward, and just as we said, we will continue to invest in our core businesses via M&A and organically.

Karl Green - RBC
Okay, thanks very much. Following up, so just in terms of right-sizing the UK, is it fair to assume that that is just a legacy impact of structural changes post-pandemic, or is it something else structurally that's happened in that country?

Palmer Brown
No, exactly. That's exactly what it is.

Karl Green - RBC
Okay, thanks very much.

Dominic Blakemore
Thank you all very much for joining us today, and we look forward to speaking to you at the Q3 call later in the year. Thanks. Have a great day.

[End]