Good morning everyone and thank you for joining us. As usual I’m here with Palmer, our CFO. We’ve had another good quarter with strong organic revenue growth of 15% and 21% year to date. This reflects net new business growth nicely balanced across all of our regions, the right levels of pricing and strong like-for-like volumes and of course, this is despite lapping the full reopening of our sectors last year.

Our client retention rate remains excellent at 96.7% and we have an exciting pipeline of new business opportunities across all of our regions. Despite persistent inflationary pressures, we’re encouraged with our margin progress. Food inflation appears to have peaked and is easing in some regions, but we expect our basket of cost inflation to be above CPI and historic levels for some time to come. We’re well placed to manage this with mitigation and sensible pricing, whilst increasing our competitiveness relatively to the high street. Of course, these cost pressures accelerate outsourcing.

We’re very pleased with the continued strong momentum and performance of the Group and we reiterate our full year guidance. Longer term, we expect these growth opportunities to sustain mid to high single digit organic growth and incremental margin progression, leading to profit growth above revenue growth. Our proven value creation model will continue to reward shareholders with compounding returns.

Let’s now move to Q&A.

**Q&A Session**

*Jarrod Castle (UBS)*

Great and good morning everyone, I’ll ask the normal three. You said that cost pressures were helping outsourcing but I’d also like to just get some colour, if you’re still seeing customers being attracted more to the larger players in contract catering in terms of consolidating around the larger players rather than the regional smaller players. Then two questions just around margin. Obviously the Americas, very tough base effect is
delivering low organic growth to other geographies, that’s obviously going to have a mix impact on your margin, given it is your highest margin business. How do you see the ability to offset that given rises in both rest of the world, maybe in North America and obviously Europe? Then just linked to, I guess, your goal of getting back to previous margin levels, any view on kind of timeframes or is it just going to be dependent on the organic growth you deliver? Thanks.

Dominic Blakemore

Thank you Jarrod and good morning. Let me have a go at one and three and let Palmer add some colour to each and take the second question. I mean first of all, in terms of your question around cost pressures and whom it most impacts, if you take a step back, we believe that at a time like this with significant inflationary pressures and the complexities of operating in this environment that we’ve signalled for a while, the benefits of scale are very significant. Now that applies first and foremost to self-op where those pressures are most keenly felt. But equally applies to smaller players that don’t have the benefit of our buying power, our ability to manage menus at scale and so forth. So yes, we do believe that it’s creating opportunity for us against really both in the first time outsourcing opportunity and with the small players. We think that is set to continue with the sorts of inflationary levels that we anticipate for a while yet, as you heard me say.

In terms of the margin levels, I think what’s really important is we now need to focus as much on profit growth as we have on margins. We’re growing profit significantly above the levels that we did pre-COVID. We believe that our revenue growth is going to accelerate into the range we’ve discussed on a sustainable long-term basis and that our profit growth will be above that with incremental margin progression.

So we’ve always said there’s nothing to hold us back from getting back to the pre-COVID margin. We’re very focused on that accelerated profit growth and really seeing margin as the outcome of that. I think it’s also fair to say and I’m sure Palmer will touch on it, with the level of cost inflation that we’ve absorbed and by doing the right thing vis-à-vis our clients, which is to price for the net cost inflation without pricing for margin on that, that represents a margin directive we’ve had to offset. So really there’s been a bit of a reset within our margin structure and therefore we’re super focused on the profit growth as the right KPI for the business going forward.

Palmer Brown

Just some colour on the last point before I get to your question on North America, Jarrod, on the cost inflation, in the past year we faced over a £1.5 billion of inflationary pressures on our cost base. It’s over £3 billion over the last two years. This year we have been able to keep our unit margin flat, facing those inflationary pressures. That comes from massive mitigation efforts, massive efficiency efforts and a sensible level of pricing. When you look at just the margin drag from pricing alone, it's worth about 100 basis points. So think about that when we’re able to keep our unit margins flat through the course of the year in the face of this inflationary environment. Now what that means of course is that the overall margin progress that we’ve made is by leveraging our above unit costs. When you think about that as we look into the future, once you have our topline growth rate, which it’ll be there, thereabouts, next year, just given the comps and the like, the margin progress will be much smaller if these
inflationary pressures continue at this level. So I think we’ve perhaps done not a sufficient job of explaining the inflationary pressures and the mitigation efforts that we’ve had to face into.

With respect to North America, the lower growth rate is all about the comps first and foremost. If you go back to last year, you saw significantly increased re-openings as the year progressed. The first half of last year, as a Group, we were operating at about 98% of 2019 revenues. In the second half, that stepped up to 113%, so a massive step up H1 to H2. That was led by North America. So North America was really the first of our regions to reopen in a big way. So what you’re seeing now is more of a normalisation from North America that the other regions are catching up to. North America is still growing significantly and we expect that to continue going forward.

Vicki Stern (Barclays Capital)

Morning, just wanted to follow up on the margin point. So are you now saying 40 bps of inflation is now more like 100? I suppose just thinking about when inflation may normalise. Is that 100 that you think you ultimately get back, or should we think about that as some that you can ultimately get back in time? Just secondly, an update please on signings. Obviously your signings are an indication of a future pipeline, just keen to know what those look like, if that’s still as consistent with that 4% to 5% net new. Thanks.

Dominic Blakemore

Thank you, Vicki. First of all just on margin, I think what we said is we anticipate we’ll continue to make margin progress. We’ve said there’s no reason, we absolutely see a path back to pre-COVID margin and we see no cap on the margin as we go forward. I think what we’re just trying to do today is explain the pressures that the heightened inflation for a prolonged period is placed on the business and our ability to mitigate that. Do we think we’ll get that full 100 bps back over time? No, because in reality it’s been a reset of the cost base and of course we’ve benefited from that through the topline on which we’ve earned a slightly lower margin but still a good margin. I think it’s the way we look at it and that’s why I think you have to focus on the absolute pounds and the profit growth. But I think what’s really important is we still see a path back to pre-COVID margin. We’ll get there over time. I think a lot will be about when conditions normalise and we’ll update you as we always do as we go.

In terms of signings, we’ve signed £2.5 billion new business ARO over the last 12 months. We still expect this full financial year to be another record year of new business signings. We’ve got a very strong pipeline, we’re anticipating a strong fourth quarter and it’s that, in combination with a very strong retention rate which is giving us that confidence around sustaining the net new business that’s sort of 4% to 5% and therefore underpinning that mid to high single digit growth as we go forward.

Leo Carrington (Citi)

Good morning, Dominic and Palmer, thanks for taking my questions. First if I could ask a couple on the regional growth trends, it seems like the last six months or last two quarters in Europe have seen the best sequential progression and I get the point about
the catch up effect, but just in the last two quarters I’m curious to know the specific
drivers and connected to this, perhaps I think there’s also been a higher than usual
sequence of contract announcements in contract wins in the UK, so perhaps if this does
tie in, any colour on the drivers behind this and specifically for Europe.
Then in terms of the headline KPIs, backing out for Q3 implies something like 3
percentage points of like-for-like volume growth. That seems remarkably good given
the maturity of the recovery and again, may find as the previous questions, but if you
could outline the drivers and the expectations going forward, that would be very helpful,
thank you.

Dominic Blakemore
Great, thank you for those questions. I’ll take growth and then let Palmer talk to volume.
Yes, as we’ve said at the half year and I’ll repeat today, we’re really pleased with the
performance in Europe. The performance we talked to in the half year, we’ve sustained
through the quarter anticipating sustaining through the full year. Again I think you have
to just kind of strip back the components of growth in Europe. As Palmer rightly said,
North America reopened first, Europe next and then the rest of world latterly. So we’re
seeing that effect on the volume recovery and that lag through the regions as it were
and hence why we’re seeing the North American growth come off first from a volume
standpoint. But if you look at net new, we’ve got North America and rest of world
trending just around the 5% whilst Europe is slightly above that.
That’s really the positive delta for us, to see Europe above the net new growth rates of
the other regions. That, as you rightly say, as we predicated on, the best retention
performance we’ve seen in the region and that applies across both the UK and
continental Europe, as well as very strong new business signings as you reference.
We’re excited by what we’re seeing in Europe, the winds are coming across in all of
our core sectors in the UK and continental Europe. The pipeline remains exciting and
we’re optimistic about the level of signings we’ll see in the balance of this year and our
ability to sustain net new growth in Europe into the next financial year as well.

Palmer Brown
With respect to your question, Leo, on the volume growth, you’re right, the math
implies about a 3% or slightly over like-for-like volume in the quarter. That’s 9% year
to date. This is something we anticipated at the beginning of the year and if you’ll recall,
we called that out, just a gradual regression of that like-for-like volume, all about the
timing of the recovery and the comps, just as we talked about before. Really that, what
we saw in Q3 was just a bit of perhaps the last of the recovery volumes. As we look
forward to Q4, really at this point we feel like from a revenue perspective we’re fully
normalised, so hence forth any volume growth would be incremental volume growth
comparable to what you’ve seen from us historically and not really any noise from the
recovery. So that’s the way we’re looking at it going forward.

Kean Marden (Jefferies)
Thank you, good morning, all. I’d appreciate your help with two questions please. First
of all, just looking at logistics issues in the US at the moment with strikes and then
bankruptcies, just wondering if you can provide some insight into how you manage
supply chain integrity risk and more broadly [inaudible] versus bankruptcies rates
we’ve seen as well over the last few months, just [present] your thoughts [inaudible] for ageing versus [inaudible].

Dominic Blakemore
Okay, Kean, thank you for those, we struggled a little with your line but I think I got them. I think the first was logistics issues in the US surrounding strikes and bankruptcies, I think you said.

Kean Marden (Jefferies)
Correct.

Dominic Blakemore
Then secondly, the debtor ageing profile in North America.

Ken Marden (Jefferies)
That’s correct, thank you.

Dominic Blakemore
Kean was that specifically the debtor aging one specifically in the US or globally, was the question?

Palmer Brown
Yes, I’ll take those. We are seeing a bit more activity on the strikes piece, the labour front and a bit more financial pressure on some of our clients, particularly in the healthcare sector and the like. Bankruptcies really aren’t affecting us, we’re not seeing that in any real meaningful way, really not seen anything across my desk on that front, so that probably speaks to the level that we’re really seeing there. But we do know there’s a lot more activity – there’s always some bit of activity, so we’re just managing it as we normally do.

With respect to the debtor aging profile, I think there are a couple of things that are happening there. One, it’s just the shape of the business is a bit different, so when you look at business mix that’s a bit more focused on map one or client pay, versus map two or consumer pay, it inherently uses a bit more capital. The same thing if it’s a bit more on the management fee structure versus a P&L structure, there’s a bit more working capital that’s involved. There’s also a bit of geography mix as well. We’re seeing higher growth rates out of Europe, which is much more focused on the client pay than the consumer pay. So there’s a bit of that, there’s a lot of a mix aspect to it just there. Then also, just as we touched before, there is a bit of financial pressure that’s coming in, in each of the regions, although it’s not material in the round.

Neil Tyler (Redburn)
Yes, good morning, thank you. A couple more from me please. I’d like to ask you, you both, for slightly more perspective on the like-for-like volume growth again, return to that topic. You mentioned that there’s a small contribution outside of North America from recovery, but away from that, can you share some perspective on the split of what’s left between changes of participation rates, perhaps sequentially, I’m thinking
particularly in B&I and sports venues, leisure venues, then what might be left from ramping up from new contracts? So that’s the first question.

Then secondly, retention rates are obviously very, very healthy. Previously you’ve talked about the efforts you put in during the pandemic around contract renegotiations and I wonder if we think the two, three, four years out from here whether you believe the retention rate is benefiting from having locked in customers who might, in previous times, have already put those contracts out to tender or whether there’s something else that’s changed in the business that more structurally can support retention rates at the current term for the longer term. Thank you.

Dominic Blakemore

Thanks Neil. Yes, look it’s really pretty difficult to pull apart the like-for-like volume growth in a quarter given that there are so many different moving parts. As we said, we signalled that there would be a slowing in volume recovery as we lap the reopening. I think it is fair to say we’re pleased with the volume growth we saw in the third quarter and I think you’re absolutely right, within that there are a number of elements.

So first we are still seeing some reopening benefits in Europe and rest of world, albeit that really, I think we feel will come to an end in the third quarter and we’ll see little of that in the fourth. I think we continue to see some return to office benefit and that, so whilst there has been a reopening, we still see an increase in office attendance and in participation, which is positive. That is of course being offset by some of the redundancy programs that we’ve seen announced previously in tech and in financial services more recently. So there are some trends and counter trends within that.

You’re absolutely right, we had pent up openings a year ago in B&I in particular and as those contracts have matured into year two, we’re still seeing some volume growth on them. So I think we feel pretty good that when you sort of add up all of those puts and takes, we’re in strong positive volume territory. Our guidance and expectations for quarter four is that’s broadly flat to slightly positive. If it were to be better, that’s where we might see any upside.

Then in terms of your question on contract renegotiation, whether that’s benefiting retention, I don’t really look much past the same factors as we’re seeing impacting new business positively impacting retention. In this very challenging world with high inflation, I do believe that we’re best placed to manage those pressures for our clients. They’ve seen it first hand through the pandemic, through reopening and through the cost of living crisis and therefore when we do come to the retention discussions, there’s real evidence the benefits we can bring them that makes us a more compelling partner.

So I think the reasons we are winning more is the reason we’re also retaining better. I think we’ve established an awful lot of goodwill over the last few years in the manner in which we’ve dealt with the various issues that we’ve faced and I would say not least in the manner in which we’ve priced. As Palmer referenced earlier, I think we’ve been very transparent with our pricing, we’ve demonstrated the gross cost inflation, we’ve demonstrated the absolute pounds millions mitigation that we can deliver for our clients and we’ve only sought to pass on that real net cost inflation after we can do everything. We’ve sought to offset the margin dilution through our own other initiatives.

So I think that combination of the approach we’ve led to these various issues has left us in a good place with our client base. We think we’ve seen a bit more go out for
retention in the last six months or so and yet we’re sustaining these very positive levels of retention, so we feel good about where we are and of course, yes, that will, those positive levels of retention will underpin our growth over the next few years.

Palmer Brown

A couple more thoughts on the retention piece. As Dom mentioned before, the macro status helps on the retention side, just as he touched on earlier. But also as he touched on earlier, with respect to Europe, we’ve done a lot to improve our processes and our focus within Europe. That’s the reason where we’ve seen the biggest step up in terms of retention rates and it’s been a massive priority for us and it’s great to see that come through. This is a record rate, we’ve kept it for several quarters now. We look at it on one hand as a record, on the other hand, if you look at it in the inverse, that means we’re still losing upwards of £700 million or so of business and we think we can do better. So we take a very much of a micro focus on how we try to drive retention and that’s paying off.

Harry Martin (Bernstein)

Hi, good morning everyone, thanks for having me on. A couple of questions from me. The first one is on sports and leisure within North America. Some of the commentary we’ve seen on attendances and per capita spending is still suggesting the small leisure season is running very well, so I wondered whether you could comment on where that stands potentially next to the 14% organic growth for the entire North America business, is sports and leisure running ahead? Then the second question is on new wins and now that the key selling season in education is I understand mostly over, where are we tracking relative to the £2.5 billion annualised wins you did last year and do you expect that to be flat or slightly up compared to last year or a little bit down? Thank you very much.

Palmer Brown

Yes, on your first one here in North America sports and leisure, you’ve heard from us previously that the consumer spending has been very strong, surprisingly strong in that segment and that is continuing. We’re not seeing any signs of weakness thus far. So that trend is staying consistent. Similar, the theme from some prior conversations, you saw a massive reopening of sports and leisure really in the second half of last year, so you’re starting to lap that a bit. The consumer spending within that, even though today, continues to be strong.

On the new wins side of things, just as Dominic referenced before, over the last year we’re £2.5 billion. We’ve got a very strong pipeline; we’re excited about the pipeline. We think this year can be a record-setting year for us. As you know, it’s lumpy and the timing is unpredictable and uncertain, but we’re always focusing on expanding that pipeline and raising our conversion rates, so it’s something we feel good about.

Jaafar Mestari (BNP Paribas)

Hi, morning, I have two if that’s all right. On the environment you describe today, just curious whether it means anything for the balance sheet. Is this an environment where
you’d be fully comfortable with 1.5 times net debt to EBITDA or would your preference be to be slightly below, you’re likely to be post buyback at the end of the year until some of the remaining uncertainties have completely abated?

Then just secondly wanted to come back on one prior question, so when margins were 6.5%, that was 100 bps below pre-COVID levels and you were describing precisely where that came from and I think you were saying 40 bps drag from inflation, 40 bps drag from start-up costs from new business and then 20 bps drag from OpEx into the general capability, fixed term investments, et cetera. Is that a bridge that you have abated now that you’re close to 7% or at 7% for H2 and start-up costs in particular and digital OpEx, are they being phased out as you expected or are they being better amortised with the higher revenue now?

**Palmer Brown**

With respect to the balance sheet, we’ve got a capital allocation framework that we apply. We start by looking at organic opportunities. That comes in the form of CapEx. One thing to really call out there, we said at the half year, we expected CapEx for the full year to be in the 3% to 3.5% range. We now expect that to be at the low end, so closer to 3% for the full year. Not exactly sure again that that’s a permanent trend. It’s something we’re keeping an eye on, but certainly for this year that’s where we expect it to be.

So first and foremost, we take advantage of organic growth opportunities. Then we look at inorganic, mainly in the form of M&A; you’ll see we’ve done about £272 million or so of spend year to date, very little in Q3. We are looking at a number of opportunities currently in all of our regions, some of that many happen in Q4 or may extend into next year. We will keep an eye on the level of activity and the quantum there and then any excess above the target leverage, we will return to shareholders.

We do expect that target leverage to be in the midpoint of our range by the end of the year when we complete our current £750 million buyback. We’ll look at the landscape, including the M&A landscape, then we’ll make some decisions there. So I think we’ll look at it in the same way that we’ve been looking at it the prior two quarters. We are very cognisant of the interest rate environment and the raising of additional debt and what that does, so there’s a constant balancing just there.

On the margins front, Vicki touched on this a little bit earlier as well, I think at this point it’s more weighted towards the inflationary pressures. You are seeing a normalisation of the mobilisations. So as that continues to move forward, that particular drag declines but inflation has been stubbornly high for a while now. I think we’ve shown we can manage it fairly well through our mitigation efforts and partnering with our clients is a big piece of it as well. It’s really hard to unpick that precisely, but it would be more weighted towards the inflationary aspect now.

**Jaafar Mestari (BNP Paribas)**

Thank you and then just that extra bit on the digital OpEx and general investment in your global capability there, is that something that bade to well’s well or is the 20 bps something we should [factor in] the long term?
Dominic Blakemore

Yes, I think what’s really important is we need to continue to invest in our business, we need to invest in sales, retention, operations, we need to have the best talent in the industry, we need to have digital and data-led solutions for our clients and we’re not going to hold back on those investments; they’re absolutely the right things to do.

I think, as you rightly said, we’re touching 7% in the second half, we’ve made significant progress this year on margin, I think it’s 50 bps on a full year basis, despite the very significant inflationary pressures and we will continue to make margin progress from here. That will be in addition to higher growth. I think we just need to balance the need to invest in this business, to sustain mid to high single digit growth over multiple years and to maximise the opportunity that we think we have in a very, very exciting market. I mean this market today has got more growth opportunity than I’ve ever seen.

Jaafar Mestari (BNP Paribas)

Thank you, very clear, thanks.

Dominic Blakemore

Let me just say thank you very much for joining us. We wish you a very restful and enjoyable Summer and we look forward to speaking with you again in November. Thank you.

[End]