Compass Group Q3 Trading Update Call

Presentation

Dominic Blakemore

Chief Executive Officer

Thank you. Good morning and welcome to our Third Quarter Trading Update. As usual, Petros is alongside me. I'll start with some highlights on recent trading before discussing the exciting strategic platform acquisition in Europe that we've also announced today.

The Group delivered another strong quarter, with organic revenue growth of 8.6%. While both regions performed well, North America was particularly strong across all sectors.

Net new business continued in the middle of our 4% to 5% range, supported by strong client retention of above 96%.

Our M&A is performing better than expected, with the integration of recent acquisitions progressing well. As a result, we're upgrading our full year guidance. We now expect constant currency underlying operating profit growth to be towards the 11%, driven by organic revenue growth above 8% and ongoing margin progression.

Now turning to the acquisition of Vermaat, which is subject to regulatory approval. Vermaat is an exceptional business and a unique asset, which will help us accelerate sectorisation and provide a strong platform for expansion in Europe. It specialises in tailored on-site food concepts, delivered-in solutions and strong consumer-focused retail expertise, which will significantly strengthen our premium offer across the region.

The exceptional leadership team has a strong track record of performance, delivering a compound annual growth rate of nearly 20% over the last 15 years, and industry leading margins. Its high retention rate reflects the quality of the offer and strong customer relationships.

In North America, we've leveraged acquisitions to build a high growth market leader, and we're replicating the same strategy in Europe. It's margin and EPS accretive to Compass in the first full year of ownership, and represents a step change in our capabilities and offer.

In summary, our trading performance remains strong, and we're upgrading our profit guidance for the year. We're excited about the potential acquisition of another fantastic business with an exceptional management team. The business is in great shape, the market remains strong, and we're hugely excited about the future.

Thank you. Now over to the Operator, and we'll take your questions.

Q&A Session

Jamie Rollo - Morgan Stanley

Thanks. Good morning, everyone. Three questions, please. Just on the Trading Update first, the North America and International organic sales growth figures diverged quite materially in Q3, so three points spread. They were very similar in the first half. You've obviously called out a couple of items in the statement, but how should we think about the underlying rate of those two regions and what that means for the Q4 exit rates and also 2026?

Secondly, it looks like most of the profit guidance upgrade is that better acquisition performance. Are there any changes to your underlying margin assumptions or thoughts for either this year or indeed next year?

Then, finally, just on Vermaat, the return on capital looks somewhat low if you're paying 20 times EBIT on that double-digit margin. I mean, can margins go any higher given where they are? Secondarily, presumably with leverage at one and a half times next year, that puts a buyback off the table for maybe a year and a half or so. Thank you.

Dominic Blakemore

Thank you very much, Jamie. I'm going to hand you over to Petros for those questions and then I'll come back at the end.

Petros Parras

Morning, Jamie. How are you? Let me just put a quick colour on North America and International. We continue to be pleased on North America performance, broad based sector performance.

If you look at the run rate in Q3, we have been positively surprised by some additional hospitality events that is driving quarter 3, and you see some good recovery from Q2. We talked about a couple of [noise] in the Q2 numbers.

Retention remains to be very strong across all of the sectors, and we expect to have some moderation of these trends in Q4, which is factored in our guidance. I will come to our guidance in a second.

When I go to International, practically, there is about a point difference behind inflation between International and North America. Then we have a bit of a timing mobilisations between Q2 and Q3 for the International business. We had a quite large event in Sports and Leisure in Australia in the first half of the year. We do expect the run rates of International in Q4 to do better than what we see in Q3.

If you think about our guidance for the full year, we expect to be above 8%, which practically [we factor in] the additional events not to repeat in Q4. If they were to repeat, we're going to do a little better on a full year guidance.

When it comes to profit upgrades, you have seen our guidance is towards 11%. Pretty much the upgrade is based on strong underlying organic growth above 8%, and we have a better-than-expected M&A. Remember, we are through four acquisitions, we are having a bit better synergies than what we thought, which is very pleasing to see.

On top of this, the timing you had assumed of some of these deals, we managed to close them a little faster. So, no change on the underlying margin. It's pretty much better M&A behind these two drivers I mentioned.

When I go to the - your third question was on the Vermaat. Dominic is going to reference few points here. Our view here is, Vermaat is an exceptional business. It's a platform asset that helps us to further sectorise Europe. Its roots and founding is on a retail consumer facing offer that the business has built over time. It's an exceptional management team.

It reflects a [point] of the business on a high single-digit growth rates consistently for many, many years, with double-digit operating profit growth. This is reflected in the valuation.

The experience we have so far from the deals we have executed, is we deliver on the synergies. We expect synergies to help us to drive over the medium-term attractive returns, and we do expect with this acquisition to be around our 1.5 leverage by end of September '26. Within this, we have also the opportunity to continue to execute our [bolt-ons] in fiscal year '26. I'll take a pause, and I'm going to pass to Dominic.

Dominic Blakemore

Yes, thanks Petros and thank you, Jamie. I think all I'd add to that is just really to say, we really do believe that Vermaat is an exceptional business. I think it's the best-in-class independent food service business outside of North America. I think it truly compares to both Restaurant Associates and Bon Appétit when we acquired those businesses.

It operates in the premium segment of B&I and also in certain other sectors, and we believe it can continue to grow at these levels in the three markets where it currently operates, Netherlands, France, and Germany. But it also has the potential to provide us with that premium B&I offer across other European markets.

I think what we see with this acquisition is we've now built the foundations to be able to really address sub-sectorisation in B&I across Europe. That means having a premium brand and a core brand. It also means we can address SMEs as well as large-scale businesses on site. Vermaat has an exceptional delivered-in offer through its joint technology program, a very high quality offer, which is produced offsite.

With the other acquisitions that we have made, we now have the ability to provide our services to multi-tenanted buildings, as well as large-scale single tenanted buildings and SMEs.

We really do feel, both across the types of clients we have and the types of offer that those clients want, we've now built or are building a sectorisation of offers that can serve all of those different communities, and for that, we think this is very exciting.

As you rightly say, look, it commands a premium multiple as a very attractive, high quality business, and it will be accretive to us in growth margin and earnings in the first year. We're very confident that those attributes that we've described will ensure that we deliver attractive returns over the short and medium term.

Jamie Rollo - Morgan Stanley

Thanks. The question about buyback, presumably, that's unlikely now till 2027, and [already] more deals on the hopper?

Petros Parras

I would say for next full year, end of September '26, you shouldn't expect any buybacks. We'll be able to do - to continue to do some bolt-ons for North America and International. In '27, we're going to reconsider what is the best allocation of capital, and remember, our priorities remain the same on how we deploy capital.

Dominic Blakemore

In terms of your question, Jamie, on other acquisitions, look, there is one remaining deal we are interested in, again, the European region, but that would be in the low single digit, hundreds of millions. Not anything like the scale of the deal we've announced today, and would fit within our bolt-on strategy.

I think this really is for us, the end of this phase of building the platform assets that we feel we need so that we've got confidence in our offer in Europe to replicate that North American strategy, and then it's very much about consistent execution. We think what this does is really gives us the ability to sit in that part - that medium to high single digit organic growth range in the International region consistently.

Jamie Rollo - Morgan Stanley

Thank you very much.

Simona Sarli - Bank of America

Yes, good morning, and thanks for taking my question. There are a couple of follow up on what has been discussed previously. Can you give a little bit more colour on what is the synergy potential and phasing, and also here, try to split it a little bit between cost and revenue synergies? Also, can you elaborate a little bit more on the lumpiness in mobilisation in Europe? What has been causing that, and what gives you confidence that you're on track for some of these to come back in Q4? Thanks.

Dominic Blakemore

Sure. Thank you, Simona. I mean, look, you wouldn't expect us to quantify the synergies on a deal of this size, but the synergies would be typically the ones that you would expect from a [MAP3] and food purchasing in particular and from our overhead leverage, particularly, in the main market of the Netherlands.

That would be similar to what the deals that we've done and we're confident from past experience that we have good line of sight of those synergies and that we can execute strongly against them.

In terms of lumpiness, I think it's as Petros says, it really is all about the Melbourne tennis where the Australian Open is the biggest single event in that contract. It happens in the second quarter of our calendar year, so you'll have seen that our Sports and Leisure performance was very strong in International in the first half.

Obviously, we continue to operate that contract, but there's less events, so it slows a little, but we're confident in our net new and International and we're confident in the run rate of organic growth in International for the fourth quarter, that it will revert to something more like the Group average.

Simona Sarli - Bank of America

Thank you. Just one last one on client retention that you mentioned is above 96%. Can you explain a little bit if it is sequentially - slightly sequentially better compared to Q2 or flat? Also, if you can elaborate a little bit between International and North America and the sequential trends there? Thank you.

Dominic Blakemore

Yes. I mean, it's broadly flat half-on-quarter and quarter-on-quarter around that 96% level. Retention in North America is slightly better than International. We've had a very strong run on retention in North America. Again, but those trends are broadly in line with what we've seen before, what we would expect, and how we expect the trend as we go forward.

Simona Sarli - Bank of America

Thank you.

Simon Lechipre - Jefferies

Yes, good morning. Three, if I may. First of all, follow up on retention. In the previous earnings call, you shared some forward-looking data on retention, so we're wondering if you have any update and if these forward-looking indicators continue to point towards retention above 96% for the coming quarter?

Secondly, on new business wins, I think it's to that $3.6 billion in H1, so could you provide an update on where does it stand by Q3? Lastly, on Vermaat, on the double-digit growth achieved over the past years, was it purely organic or did the Company complete any acquisitions? Thank you.

Dominic Blakemore

Yes, thank you, Simon. I mean, look, on retention, I think we said it on the previous question that we aim to remain above that 96% level as we go forward. I think we've talked on previous calls about the opportunities we see to continue to improve sequentially what we do on retention.

We're very focused on the disciplines of the strategic alliance group across all of our major markets, and also deploying our retention processes on the tail of [non-sec] accounts, and we think there's always more that we can do there, so we'll remain super focused, but yes, staying above 96% is the aim.

In terms of new business wins, I think we - LTM new business signings, the Last Twelve Months new business signs, at the end of the third quarter was around $3.7 billion, which was up 6% or 7% on the same metric a year ago. So, I think we're going in the right direction there.

Then, finally, just on the Vermaat growth, it was about half-half, so half organic, half inorganic, and that has been part of our model as they have consolidated and brought in the smaller businesses. It's very similar to what we've done, but a very attractive organic growth rate within that as well.

Petros Parras

Just to add to Dominic's point on - just keep in mind, first-time outsourcing remains very positive. The trends continue to be intact. We're capitalising opportunities. Q3 was above 48% of new business wins, and we look forward to driving this further.

Simon Lechipre - Jefferies

Thank you.

Jaafar Mestari - BNP Paribas Exane

Hi, good morning. Two questions, please, on things you said. On North America, you've mentioned you expect a moderation of the trends into Q4. I just wanted to clarify that this applies entirely to your point on like-for-like volumes being strong in Q3.

Then, on Vermaat, what are the acquisitions we need to keep in mind when assessing the growth of the business over time? There's a few different ways you've talked about this. They all look very strong. I think in the press release, you say 20% over 15 years, obviously, from a small business.

On this call, double-digit operating profit growth. So, just trying to get a sense of just adding this business to your International platform, how much stronger would organic growth instantly be before you maybe start cross-pollinizing and benefiting from their digital and branding superiority, et cetera? Thank you.

Dominic Blakemore

Thank you, Jaafar. If I take the Vermaat question and then I'll hand to Petros to the question on North America. I mean, look, you've heard me just say that the Vermaat growth has been double digit organic. Look, that would be slightly accretive to our International growth rate as it stands today.

But what we really see in Vermaat is the opportunity and ability to allow us to sustain the mid to high single digit organic growth rate sustainably and consistently over time. In giving ourselves that premium brand in B&I, we really do think that the combination of our subsectors allows us to consistently perform and deliver over time. I think that's the key.

We also said, look, it's got a double-digit operating margin, so it'd be accretive off the bat from a margin standpoint, and then of course there will be synergies on top of that as well. Look, we're still awaiting competition approval for it, so we will give you more colour on that when we speak to you in November.

Petros Parras

On North America, Jaafar, it's all driven by volumes. We were positively surprised in Q3, it came stronger than what we anticipated. We do expect some of this to moderate in Q4, and this is what is factored in the guidance.

Dominic Blakemore

Yes, I mean, I think it's worth saying as well, we had a very good Q3 in both B&I and Education, so double-digit growth in both of those sectors in North America as well as the events in the calendar in Sports and Leisure. So those events are broad based and positive, and as Petros has rightly said, we're not factoring that into the guidance, but should we see that in the run rate, that would be an upside to where we stand today.

Jaafar Mestari - BNP Paribas

Thank you.

Pravin Gondhale - Barclays

Hi, morning. Thanks for taking my questions. Firstly, on the volume growth, can you share a bit more colour on the volume growth, the underlying volume growth in Q3 and excluding the one-off [hospitality] contribution in this quarter and confidence you have in delivering positive volume growth next year?

Then, on Vermaat acquisition, can you just talk a bit more about more recent performance of the business in more recent years, especially after Q4? Yes, you talked - I mean, you talked about double-digit organic growth here, but more on the margin front there as well? That would be helpful. Thank you.

Dominic Blakemore

Pravin, thank you. You wouldn't expect us to go into that level of specificity around ongoing acquisition, I think, but just as we've said, the performance has been consistent over 15 years with double-digit organic growth in recent years. We're very excited about the potential of that business within the Compass Group.

When it comes to the point about volume, we said around a point of positive volume this year. We expect volume to continue to be positive next year, but we would expect it to moderate a fraction from what we're seeing, and that's our view in the short term for next year. Petros, would you add anything to that?

Petros Parras

I was going to say, practically, you see the manifestation of our value gap to the high street. We talked this in the past, we saw about the gap. When consumers are using our offer, we see our clients having more events in the premises. It's quite competitive out there when you go comparing with the high street, and this is what we keep enjoying in North America and International.

Pravin Gondhale - Barclays

Thank you. That's really helpful.

Andre Juillard - Deutsche Bank

Good morning, gentlemen. Congratulations for this strong publication. Three questions if I may. First one about the US, could you give us some more colour about the healthcare trend, and in general, [where] you see inflation evolving?

Second question about Europe. Could you give us some more granularity about the profitability you are expecting to register in this region, considering that historically, their profitability has been lower compared to the US?

Last, a small question about leverage. You said this morning in the press release that you are targeting 1.5 times net debt on EBITDA at the end of '26. Could you give us some more visibility about the mid-term target for leverage, considering that - correct me if I'm wrong - it was more or less one time before today's acquisition? Thank you.

Dominic Blakemore

Yes, thank you. I'll let Petros take the first and third question, and then just with regard to Europe. I mean, I think we look at it really in terms of North America and International. There's about a two point gap between the two regions. We expect over time that the margin in North America should continue to incrementally progress, as we enjoy operational and overhead leverage at the growth levels that we're delivering there.

We expect the margin in the International region to incrementally grow but faster than North America, to start to close that gap. Part of that will be leverage, part of that will be acquisitions, and part of that will be the efficiency opportunities that we see.

I think you have to remember that we have a different business model in International than we do in North America. We don't enjoy the scale of North America. We don't have the scale of Foodbuy, but we see opportunities to build some of those attributes into our operating model outside of North America and continue to close the gap. But as North America grows itself and - that will contribute to ongoing, consistent, sequential margin progression at a Group level.

Petros Parras

Andre, good morning. On USA on healthcare, we continue to perform well. I'm sure you have seen a lot of Medicaid articles. We haven't seen anything [with] our business yet. We're not complacent. We're well placed and very close to our clients to see how these things evolve.

I just want to tell you, historically, this sector has been always under pressure with Medicaid, Medicare, and somehow the system was able to digest some changes. If this is not the case, I think it's going to lead to a more first-time outsourcing for us. Remember, healthcare in the US, half of this is in-house, so it's going to give us some good opportunities if we were to see any adverse impacts, but so far, we haven't seen anything.

When it comes to debt to EBITDA, our leverage ratio continues to be one to 1.5. In the last three years, we have hovered anywhere between 1.3 to 1.4. I don't recall, we were close to one times in the last three years or so. We'll continue to be there.

I think what is interesting is by September '26, we'll be able, subject to regulatory approval, to have digested this acquisition of Vermaat. We have opportunity to continue to invest in the bolt-ons. This is going to give us further scope for '26. We'll start by deleveraging '26, and we're going to revisit the capital allocation decisions.

Andre Juillard - Deutsche Bank

Okay. Thank you very much. Just a follow up, maybe on Vermaat. You're expecting the closing to take place at the end of the fiscal year, and therefore, to have a full contribution in '26 or it's too short?

Petros Parras

We don't know. This is all subject [to getting] approval. It may take - have to follow the process. We'll let you know once we have an update.

Andre Juillard - Deutsche Bank

Okay, thank you very much.

Leo Carrington - Citi

Thank you. Three questions from me also, firstly, just quickly on Vermaat, how does the, maybe, €500 million of Netherlands revenue you're acquiring compare to your existing footprint in the country?

Secondly, in North America, you've mentioned hospitality volumes again. It feels like Sports and Leisure is often positively surprising on volumes. Can you just outline latest trends in terms of attendance numbers at your venues versus the success of your offer and the per caps?

Then, lastly, on margins, maybe this is something for the full year, but North America margin's essentially back to 2019 levels. What's the right way to look at International, given that some higher margin businesses have been disposed of? Should we really be expecting better underlying International margin expansion going forward?

Dominic Blakemore

Thank you for those questions here. Let me just tackle margins first. Look, we talk about the pre-COVID margin level, and I think we have to recognise that we are in many ways a different business today. We've disposed of a number of companies, and you rightly say some of them did have higher margins, but were more volatile and less attractive for longer term.

At the same time, we've obviously been through a very significant spike in cost inflation that we've had to recover through pricing and efficiency. I think the margin structure today is different. All of that said, we do believe that we'll be trending toward 2019 levels on a Group basis, as we exit this year, toward or at, and we'll continue to make progress from there.

Yes, I think it's absolutely right that you should expect us to make progress from here at International. We've made attractive acquisitions as you've heard us say today that are performing well, and we see lots of opportunity to grow the margin from here.

In terms of the points on volumes, yes, the hospitality volumes in B&I are positive and that's exciting. In Sports and Leisure, we largely see increased footfall across most of the different sporting codes in North America and strong per capita spend patterns. As you'd expect, that we're probably seeing those starting to flatten rather than be incremental period-on-period.

That's still positive, but it's not quite the level of growth that we experienced, as we talked to you about what we described as the revenge spend post pandemic. I think that has now started to normalise in the Sports and Leisure sector, which again is fine. It's not negative, but it's not quite as positive as we were experiencing.

Petros Parras

To your question on Vermaat, just to remind you, the geographical presence of Vermaat, Netherlands, Germany, France, we align to our top 10 Group markets. These three markets, Netherlands, Germany, and France is about half of continental Europe market size. We will be able to take opportunities on.

Netherlands is pretty much three quarters of the Vermaat business, nearly double the size of our business in Netherlands. That gives us opportunity to grow more. In Germany and France, we have great opportunities to build on the successful model the Vermaat team has launched today.

On top of this, as Dominic referenced before, we have an opportunity to roll out the premium offer of Vermaat within other continental European markets.

Leo Carrington - Citi

Thank you very much, Petros and Dominic.

Estelle Weingrod - J.P. Morgan

Hi, good morning. Not too many questions left for me. The first one on higher education in North America. We've now entered the summer months, so you probably have slightly better visibility into the full term ahead. Is there anything worth flagging?

Then just another question, I mean, across the board, more generally speaking, any signs of, I mean, some macro weakness, some slowdown in decision making process in Europe or North America? I mean, obviously your results are not pointing to any weakness whatsoever. Thank you.

Dominic Blakemore

Yes, thank you Estelle. I mean, just on the second question first. I mean, the simple answer at this point is no. I mean, you've heard us talk about further increase in our gross new signings over the last 12 months, a continuation in our retention trends and positive like-for-like volume.

Look, I think the macro environment remains pretty positive for us. Why do I say that? Again, we talk to you a lot about - we do believe that our operating model is resilient. We think our operating model is even more resilient now that we've focused the portfolio of countries in which we operate.

I think the point that Petros made earlier remains really relevant that, we talk about this value gap to the high street. We've seen the pressure the high street is under for many reasons, whether it's NI costs in the UK, it's minimum wage, costs across the piece. It's the food cost inflation that continues and has spiked again in North America.

All of those factors are leading to, we believe, a significant cost advantage in our business models to that of the high street. We think that's very attractive to outsourcing and to the first time outsourcing trends that we again referenced today being nearly 50% of our total wins.

Look, it feels like we're a resilient business and performing well in the current macro, and we're not seeing any particular signs of weakness affecting that here and now. Petros on higher ed?

Petros Parras

On higher education, as Dominic referenced, we keep performing well. To be honest, your question on enrolment, we're going to have a better view as we go towards September. So far, we haven't seen anything worrying us. I just want to remind you, the opportunities we have on first time outsourcing higher education are quite significant.

If they're going to go through more cost pressure, it will create opportunities for us, and this has been the case in the past. What we see in the higher education, we're seeing a more of a multi-tiered offer that spans different consumer base, not only the students, it's the Board, it's the visitors, it's the faculty.

We expect this to be fairly resilient. We're going to monitor enrolments and provide an update as we go in the full year.

Estelle Weingrod - J.P. Morgan

Thank you very much.

Ivar Billfalk-Kelly - UBS

Thank you very much. Sorry if I missed it, but I think you mentioned that inflation is tracking below - in Europe, it's tracking below where it is in North America, but given inflation seems to be pretty sticky, what does that actually mean going into next year?

Secondly, looking at Vermaat, it looks like it actually operates in some segments, which aren't core operations for you, like travel retail. Does that actually represent the potential expansion of your planned scope of addressable markets?

Then lastly, I mean, maybe you can give us some colour, even if it's only qualitative on how comp - sorry, compliance rather, is tracking within Foodbuy and how this acquisition of Vermaat feeds into the potential for GPOs in Europe in future?

Dominic Blakemore

Thank you for those questions. Look, in terms of inflation, what we're seeing at the moment is inflation in Europe tracking around 3% on food, slightly higher in North America, and around 4.5% on labour, and slightly higher again in North America. So around about a point of delta in the aggregate between the two regions.

Obviously, we managed to mitigate some of that before we take pricing. At present, we probably expect to see those trends continue. We continue to see pressure on - upper pressure on minimum wage, upper pressure on late labour supply, and obviously, we're seeing some of the - those higher labour levels feed into food conversion costs as well as seeing the impact of - to a degree, a little bit of the tariffs in North America on the food supply system.

But again, all of that we think is fine. We can manage inflation at those levels. We will take some pricing accordingly. It goes back to my earlier point that - so when we see those levels of inflation, we're able to differentiate our offer to that of the high street because we believe we can deal with it for the reasons we've explained to you on previous calls with greater agility than the high street and many of our competitors.

In terms of Vermaat's position in other sectors, yes, it has some operations in sectors that aren't typical to us today. It's a very small part of what they do. They're very attractive businesses.

It's part of what Petros referenced earlier, their heritage of having been a high street restaurateur, which actually is what we believe gives them their culinary culture and attributes, which are slightly different to what we have, and actually is the history of both Restaurant Associates in North America and Levy in Sports and Leisure in North America.

We think it is attractive, and it may give us opportunities that we haven't hitherto seen in other parts of our business.

Petros Parras

Maybe one word on compliance. I think you have heard us talking also in the deep dive, one of our key KPIs is making sure we channel our purchasing through the best commercial deals. We continue to do this. The interesting fact about Vermaat is the CEO, Rick, the first years of his career was in purchasing within the business.

He's very, I would say, knowledgeable about this, which gives us a very nice opportunity as we go to the integration, subject to regulatory approval to capitalise the opportunities there. You'll continue to see - Dominic spoke about International business growing margin faster than North America, and one of the key drivers there is improved compliance and purchasing excellence.

Ivar Billfalk-Kelly - UBS

That's great. Thank you very much.

Dominic Blakemore

Yes, thank you very much. Thank you all for joining us today. As you've heard, we're both excited about our underlying trading performance, the performance of recent acquisitions, and we're very excited by the announced acquisition of Vermaat today and everything that that can bring to our European business. We look forward to speaking to you in November with our full year earnings update. Thank you.

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