Compass Group Q1 Trading Update

Presentation

Dominic Blakemore

Group Chief Executive Officer

Thank you. Welcome to our Q1 trading update. As usual, Petros is alongside me. We've had a strong start to the year, delivering organic revenue growth above 7%. Growth moderated, as expected, from the exceptional Q4 run rate, but the overall momentum remained very positive and strongly within our multi-year growth algorithm. Both regions and all sectors performed well, with sports and leisure, and business and industry the fastest growing.

For the fifth year running now, net new business remains in our 4% to 5% range, supported by sustained strong client retention of over 96%. Outsourcing trends remain robust, with new business wins up 10% year-on-year to $4 billion, nearly half of which came from the B&I sector.

We completed the acquisition of Vermaat in December, and are now progressing with the integration. Together with synergies from the other acquisitions and operating leverage across the business, we're confident in delivering good margin progress this year. We've also announced our intention to change the currency of our share price from sterling to US dollars from 1 April.

Turning to guidance, our expectations for 2026 are positive and unchanged. We anticipate underlying operating profit growth of around 10% on a constant currency basis, driven by organic revenue growth to around 7%, 2% profit growth from M&A, and ongoing margin progression.

Before I hand back over to the operator for Q&A, I'd like to address the trends we're seeing in AI across our business. B&I continues to be one of our fastest-growing sectors, both globally and in North America, supported by strong net new and positive volumes.

Contract signings are very healthy, with over half of the new wins coming from first-time outsourcing, driven in part by the continued expansion in the tech sector, where we have a very strong presence and are growing above double digit.

After spending three weeks meeting with around 40 current and prospective clients, one message came through loud and clear. AI is driving significant improvements in efficiency, productivity, and growth, but capturing the opportunity requires new skills and evolving roles across organisations.

It's also important to remember that 80% of our business is in sectors such as sports, defence, mining, manufacturing, education, and healthcare, which are largely insulated from any AI risk, and continue to offer us very strong pipelines and attractive first-time outsourcing opportunities.

The remaining 20% of our portfolio is in white-collar B&I, which spans tech, professional, and financial services. Over one third of this is related to tech, where we are benefiting from what's been described as the largest infrastructure build-out in human history. The other two thirds include professional and financial service clients, where only a very small proportion is exposed to entry-level roles.

The AI supply chain now spans energy generation, chip manufacture, data centres, modelling, and applications, and we already have a very strong exposure to all of these layers, where we see an acceleration in growth as this ecosystem continues to scale. We're an active AI adopter ourselves, embedding AI across our operations to drive growth and productivity, particularly in sales execution and procurement.

In summary, we're well positioned to benefit from the AI economy, both supporting our hyper-scaling technology clients and by participating in the broader AI supply chain. Experience has also shown us that our business has proven extremely resilient through major cycles, from the Global Financial Crisis to COVID, and we've consistently adapted, emerged stronger, and accelerated net new growth. With that, I'll now hand over to the operator so we can take your questions. Thank you.

Q&A Session

Jamie Rollo (Morgan Stanley, Analyst)

Thanks. Good morning, everyone. Two questions, please. First of all, just on the 4% net new, you've obviously outlined very good ARO and retention numbers. Could you perhaps just give us your confidence level that that net new figure accelerates through the year and how you see the quarterly cadence? Also, maybe just looking into the years ahead, should we really be thinking more about a 4% net new business rather than that 4% to 5% number?

Then the other question, to a higher level, just on GLP-1 adoption, are you seeing any impact on portion sizes, any impact from protein mix on revenue or margins, anything to change your like-for-like volume assumptions? Thank you.

Dominic Blakemore

Thank you, Jamie, and good morning. Let me take those two. First of all, I think, take a step back, we're now – this is the fifth year at which we've been delivering within the 4% to 5% range. Again, that is a very significant acceleration on the level of net new in this business pre-pandemic. That's largely because we're delivering consistently across the entire portfolio, with good net new in both international and North America. We see every opportunity to sustain that over the years to come.

We're very, very excited about the pipelines that we see for one to three years, but, more importantly, the evolution of our subsectors and the opportunities that they generate for us. We're working very, very hard on opening up new subsectors for us where we don't currently compete, like defence in certain markets, like airline lounges outside of North America, like data centres across the globe. All of those expand our addressable market and give us more opportunity to both sustain that net new growth rate but also accelerate it.

If I look into this year, we anticipate a similar level for the first half of this year, similar trends in Q2 to Q1. Yes, you're absolutely right, with a record level of new business signings now at $4 billion, if we retain and sustain the levels of retention we've got, we would expect to see a modest acceleration into the second half in net new, and for the full year. That gives us confidence going into next year.

I think, as we've always said, we will be within that range as best we can see. Perhaps in some years, it may be lower; in some years, it may be higher. That's exactly what you've seen us deliver. Our ambition is to push above that range, and we'll do everything we possibly can to improve our sales execution and expand our addressable market to do even better.

We've had years where North America have been above 5. We've had years when material markets for us have been above 5. So, our ambition and expectation is to build the pipelines and processes that can achieve that more broadly across all of our business.

When it comes to GLP-1, to be honest, we're not seeing an impact at this point in time. Were we to, we think it's a positive for our business. Again, let's just remind ourselves that we can adapt our menus, our portion sizes, our offer. We can premiumise in a way that we can deliver to the consumer what that consumer wants. So, we do believe that were there to be a different demand pattern, we could respond to that in a way that is positive for the business.

Separately, we would say that we're seeing more protein-enriched products within the canteen vending business. We think that's exciting because it gives us a broader range of SKUs to market to our consumers, more variety and potentially more opportunity.

Jaafar Mestari (Exane BNP Paribas, Analyst)

Hi, good morning. Two questions, please. Firstly, just so we're all on the same page, if you could give us a little bit more colour on the very qualitative descriptions you've made of these KPIs for net new business. It sounds like it's 4%, but we would love to hear a decimal if there is one. Does that mean pricing is between 2.5% and 3%, and is net positive volumes – does that mean 0% plus or between 0% and 1%, please? That'd be extremely helpful.

Then related to net new business, we've seen good signings have continued to tick up. We've seen retention that you stated is unchanged, and so that would suggest if you start towards the lower end of the range, it's just the timing of those wins, really, so maybe some more colour on that. Is it broad-based? Were there a couple of bigger contracts that explain why there's a temporary mismatch?

Sorry, that's three questions. But, lastly, if I take your $4 billion of signings and 96% retention, that would suggest at some point the net new deserves to be delivering [at] 4.7%. Is that something that is a good assumption for the end of '26, early '27, or is there anything we should have in mind in terms of further timing discussions? I suppose there's also a slightly pedantic point about FX in your $4 billion, if part of that is international, et cetera. Can I do that math, the 4.7%?

Dominic Blakemore

Thank you, Jaafar. That's quite a lot to unpack there. Let me have a go in the round, and then maybe hand over to Petros for some more detail. What I'd first urge you to do is not fixate on the quarterly trends. We can have one material contract opening, which can distort the trends from quarter to quarter. I think it's much more important to look at the trends over the year and over time.

We delivered 4.5% last year. We've done that for four years consecutively; closer to 4% at the moment. The momentum between Q4 and Q1 is largely about a lower level of pricing resulting from a lower level of inflation, which I think we very much signalled in previous calls.

The $4 billion of new business is a really exciting number. We've got a very exciting pipeline ahead of us. Yes, there are some quite chunky deals in that pipeline, and there were some chunky deals in the $4 billion. But, of course, we've always had large deals in there as well as the more – the smaller deals which we see consistently across our smaller markets. It has to be a mix for us to sustain these levels.

Yes, if you do the math, you would anticipate an acceleration, as would we. Again, as I said earlier, if we sustain the levels of retention we're enjoying today, then that should be the case. That would give us confidence going into the first half of next year and as a platform to build from with very exciting pipelines.

So, I think what's most important for us is, you know, we've set out the 4 to 5. The 4 to underpins the mid- to high-single-digit organic growth. We've consistently been there. We see ourselves staying there and to build from here, and that underpins the model which gets us to the double-digit earnings, as it were. Petros, did you have…

Petros Parras

I think Dominic has referenced all the good points. The only thing I'm going to say, Jaafar, is on volume, we're seeing about half a point positive contribution in Q1. We remain positive for the next quarters. Just to put this a bit in context, we're lapping a massive Q1 last year, with a return to office and a very dense sports calendar.

We're seeing in the print about half a point of contribution, which is higher than pre-COVID; it was nearly flat. This gives us confidence that the volume will continue to contribute positively as we go.

Leo Carrington (Citi, Analyst)

Thanks very much. Good morning. Could I ask on two themes? Firstly, in terms of the growth in B&I, I appreciate that detail on AI. I wonder if it would be also helpful to elaborate on your exposure to prime or grade A offices versus the out-of-town secondary offices, and just thinking about the relative durability of those as employment centres.

Then, secondly, on M&A, can you give some colour on which regions and subsectors saw the M&A spend when excluding Vermaat for $200 million? Then regarding Vermaat itself, I appreciate we've got the sector deep dive on the [9th], but can you outline what the post-integration plans are for the business, please?

Dominic Blakemore

Sure. Leo, thank you for those questions. I don't have a specific breakdown in the split between our prime city B&I clients and those which would be outside. Of course, the split we often see is that our B&I clients are largely city-based. Of course, our manufacturing data centre and other such clients would be more suburban or remote, for very obvious reasons. So, I think we're talking about potentially different categories of clients.

It's also why you would typically see brands like Restaurant Associates, FLIK, Bon Appetit represented in major urban centres, but Eurest would be more in the manufacturing, blue-collar, suburban locations.

We believe that there's a level of, again, resiliency in that model, because of the different trends that we would see in the Eurest and B&I central city locations. So, hopefully, that gives you some colour. I know it doesn't give you the exact quantified detail. Petros, do you want to answer on M&A and Vermaat?

Petros Parras

Yes. Hi, Leo. $1.9 billion spend in Q1, $1.7 billion in Vermaat. $200 million is just bolt-on infills for vending and [unattended] in the United States. We have been doing this for a long time. It does help on growth. It does help on the margin expansion as we go. We have a pipeline for the second half of the year in M&A, as we discussed in the December call.

When it comes to Vermaat, we closed in December. We are in the process of integrating the business within our portfolio. We cannot comment on how this integration is going – it's too early – other than we're very excited to welcome an excellent business and a management team within the Compass family.

Ivar Billfalk-Kelly (UBS, Analyst)

Good morning, everyone. I want to follow up on the AI exposure or non-exposure, as the case may be. But within the business and industry division, what sort of contract structures do you actually have in place, and how would your financials actually evolve if you do see your clients have lower office attendance? Linked to that, are you actually making any changes to the contract structure that you're writing here, to protect from lower volumes in the future?

Secondly, to follow up on Jamie's question about the GLP-1 drugs, what sort of proportion of your revenue mix actually comes from add-ons like snacks, like chocolate bars and crisps, which might actually be exposed if people are eating less food?

Lastly, it's probably one-off in nature, but can you give us a sense of the potential opportunity from the Football World Cup that we're going to have this summer? Do you allow for anything within your guidance at the moment, and could there be upside? Thank you.

Dominic Blakemore

Thank you, Ivar, for those three. Look, first of all, specifically with reference to AI, and maybe giving a bit more colour than I gave in the intro, generally, we feel very positive about the opportunity that comes from AI within our portfolio.

As I said, 20% of our business is white-collar B&I. 7% of that 20% is with tech clients. In the last quarter, we grew 14% in that sector. There's a phenomenal opportunity to partner with the hyperscalers here. If you do the math, that's contributing a point of Group growth, and we've seen that growth both across net new and volume like-for-like.

Just to give you one example – we talked about it before – we understand there are plans in place to see something like 6,000 data centres in the US by 2030; that's the US alone. That is both new constructions and it's the scaling-up of existing construction.

When those facilities become scaled, we see an opportunity of around $4 million to $5 million per data centre. In reality, that's created a new subsector for us, which could be anywhere between $10 billion and $20 billion, of which we have perhaps a 1% share today. That's a super opportunity and I think a very real example of what's out there for us in this phase of expansion.

That's without speaking to the level of expansion we're also seeing within that client base in their programming software and coding divisions, which is also very, very significant, both in the US and within their operations overseas. So, I think that that speaks to the opportunity.

When you talk to the risk, we would believe that what we describe as entry-level roles, which I think those are the ones which have been categorised as being at most risk, at least in this phase, would be no more than 10%, 15% at most of our 13% of white-collar professional service, financial service B&I. So, again, the math would get you to 1%, 1.5%. If half of that were at risk over a number of years, we feel it's largely insignificant and immaterial and manageable.

I'd also point to the fact that everything I'm seeing right now is that we're seeing role replacement rather than displacement. Whenever I talk to the CEOs of our clients, we understand that new roles are being created around data integrity, data management, data compliance, the technology skills to be able to manage the LLMs and decide on the most appropriate models, and the retraining of colleagues around how to use AI and deploy the outcomes. So, I think there is a net positive there.

I'd also point to some of the research which suggests that we could be in a phase of very significant net job creation over the years to come. All of that said, were it to present a risk, I think we learnt a lot through the pandemic and working from home. We reorganised, restructured many of our contracts, to protect us from any significant volume declines.

We still have the basket of contracts we've always described, which a third, a third, a third broadly, as we reverted to that post-pandemic, which gives us good shelter and mitigation against the potential risk. So, we do feel, should risk materialise, we're well-placed to address it. We actually believe that there is more opportunity than risk for us in that space.

Moving on to GLP-1 drugs, I don't have the exact breakdown of confectionery and soft drinks. Obviously, our core is providing food and beverage on the plate, as it were, a culinary offer, as opposed to a snacking and confectionery offer. We do have that in our canteen vending business, and I would signal that it continues to be one of the fastest-growing sectors of our business, both from putting down additional sites but also from the like-for-like volume growth within that.

I think part of that goes to the ability to put new products in to replace those products which may become off-trend. People are still consuming, they're consuming differently, and we have an ability to adjust and adapt to that.

Then, lastly, Football World Cup, how this works is there are a number of stadia that we are presently in that will be used as venues for the World Cup. We will obviously get revenues associated with that, but, typically, those stadia would've been used for concerts and other events during that period of time. So, in the round, we believe that it's broadly neutral-ish. We are doing a few other things, like fan zones, which will give us a bit of volume tailwind in that fourth quarter. I wouldn't call it out as being material; I think it will be a positive contributor for us.

Estelle Weingrod (J.P. Morgan, Analyst)

Hi, good morning. I've got two questions. The first one, you touched upon the phasing of organic growth for the year. Anything to flag on margins in terms of margin expansion year-on-year in H1 versus H2? The second one, with one of your close competitors hiring a lot more new sales in the US, is there anything you're seeing out there in terms of the competitive landscape? Thank you.

Dominic Blakemore

Let me take the second one first, and then I'll hand over on margin to Petros, and he may also add to the second question too. Look, I think it's important for us to say that we always grow our sales force every single year. We've always said that this is a virtuous circle of growth. To be able to grow proportionally on bigger volumes, we need more sellers, and we're constantly adding.

We're also adding sellers to new subsectors and new opportunities, like first-time outsourcing, like defence in North America. So, we ourselves are constantly investing. It's not a new thing for us; it's just part of our model. I think that's very important to say.

Secondly, no, we aren't seeing anything different competitively, to be brutally honest. In reality – and I think Petros may add some colour to this – we don't earn most of our growth from the largest competitors. As we've said repeatedly, half of our growth is coming from first-time outsourcing.

Of that balance of 50%, probably two-thirds of that comes from small local regional players. So, actually, this industry isn't about a head-to-head or a three-way fistfight, as it were. It's a much more balanced growth story than perhaps the narrative allows. Petros?

Petros Parras

Let me just take the margin question. Overall, we feel confident on the margin progress for 2026 and beyond, and we discussed this back in December and previous calls. If you think about the three levers we have, core business margin expansion, we're making really good progress there within our map framework for performance when it comes to purchasing and productivity.

The second thing is operating leverage. You have seen last year and the last couple of years, we're driving some good efficiencies there as we grow, and we'll continue to enjoy around 7% growth.

The third thing is the M&A acquisitions in the line of sight we have on synergies we delivered last year, which helped on our profit performance, as well as the opportunities we have for this year as we move forward. If you take the three components of margin expansion, we feel good about it. Overall, we view the implied margin expansion in our guidance as a floor for 2026.

André Juillard (Deutsche Bank, Analyst)

Good morning, gentlemen. Three questions, if I may. First one about healthcare and education, you didn't talk about this segment. Can you give us some more colour about the evolution? Second question about pricing moderation, what do you mean exactly? Could you also give us some more granularity?

Third question about leverage, so you confirmed your target of leverage and the acquisition already done or in the pipe, but could you consider to use your balance sheet to return some cash and try to surf on the opportunity of your stock level? Thank you.

Dominic Blakemore

Thank you, André. Let me hand those three over to Petros.

Petros Parras

So, when it goes down to healthcare and education, both sectors perform well within our 7.2% [theme]. I know we talked in the past about [the norm] in education. Actually, we see good trends there when it comes to out estate. Remember, in education, we have a very tiered offer, spanning consumers, visitors, faculty, all the populations we cater, and we see some really good performance there.

The opportunity on first-time outsourcing remains very significant in this sector. Remember, it's the less penetrated. In 2025, we mobilised a couple of really large institutions on the first-time outsourcing that gives us good credentials to keep up in this sector.

Healthcare, I would say similar trends. Good growth. Volumes, a positive volume contribution. I know in the past, we talked a bit of if there were any concerns on the [tightening spend] in this sector. We're not seeing anything. We're not seeing anything either through patient feeding or employee feeding in our restaurants. Again, this sector represents a massive first-time outsourcing opportunity for us as we go forward.

On pricing, just to remind everyone, the value for our clients is truly mitigating inflation before we discuss appropriate pricing. So, if you think about our Q1 pricing, it's about 2.5%. The run rate market basket inflation is north of 3%, and we need to continue to do a great job for our clients as we go forward. If you compare to our Q4 last year, [quality] is about 70 bps reduction on inflation. This is what you see in the trajectory of our Q4 to Q1 [print in organic], which is consistent to our expectations.

On leverage, I think, just to remind everyone, we completed Vermaat for 2026. We have a good pipeline of M&A, and we discussed about the opportunities we have within GPO and other bolt-ons.

We're going to go through 2026, digest the investments we have executed, and as we go to 2026 September, we'll see where we end up on the leverage ratio. Then we're going to have to balance our M&A pipeline and consider other options as we move forward, which we'll provide an update at that time.

Dominic Blakemore

If I may just add to the first answer on healthcare and education, I think you're seeing in our results very strong performances in B&I and sports and leisure. In B&I, in particular, I think that's where we've benefited from our sub-sectorisation approach. Then separately in sports and leisure, we've really focused on our sports and leisure offer outside of North America, where we've seen some very exciting growth.

We can't do all things, but I think there's even more opportunity in healthcare and education, and I'm very focused on working with our operators and teams to see what more we can do there. So, I think the current trajectory is good, but it could yet be better, and that's the pressure we're putting on ourselves.

Simon Lechipre (Jefferies, Analyst)

Good morning. Two questions, please. First of all, on margin and the phasing, I'm not sure if I missed it, but any specific phasing between H1 and H2 this year? Secondly, on inflation, I mean, where the inflation on your cost base is currently trending, please? Thank you.

Petros Parras

Hi, Simon. Morning. On margin, we will continue to make progress on H1 versus last year and H2 versus last year as we go, and this is consistent within our growth and P&L algorithm, and we're confident in this.

On inflation, we do expect inflation to continue to moderate a bit as we go to Q3 and Q4. Again, it will depend on some of the forward-looking indicators. You look at some of the commodities, supply chain impacts but, in our guidance, actually, we have factored a touch more moderation as we go.

Kate Xiao (Bank of America, Analyst)

Thank you very much for taking my questions. Hello, Dominic. Hello, Petros. I have two questions to follow up on earlier points. First on the AI, I guess, new opportunities, thanks for putting the numbers there. You mentioned that your current market share is 1%. That would be a lot lower than your market share in North America B&I, for example.

Can you talk a little bit about why that's a bit lower now, and what are the efforts there to increase market share? Are you developing new brands to gain your fair share? What is the maybe target market share you're looking at in the long term?

Then just a follow-up on the FY guide of margin and kind of bottom line. Petros, you said, clearly, it's a floor. So, are you potentially looking to revisit this at first half results? Thank you.

Dominic Blakemore

Thank you, Kate, for those two questions. I'll take it first. Look, I think we've seen the data centre opportunity being different, and largely that's because of the scale of this generation of data centres. That's either because they're being newly built or they're being expanded from their footprint. That therefore gets them to a level of service requirement that becomes attractive for us and also attractive for the clients to outsource.

I think the second thing to that is that these are our clients already within the more traditional office that we would provide in their offices or large-scale centres in major urban areas. So, we're talking to our own clients about opportunities that we can now serve that are sufficiently scaled for us to address.

Typically, you need, I think, three core skills. You need some form of canteen and restaurant offer, you need a micro market vending offer, and you need a level of support services. We can package all of those together for those clients, so we're starting to see those come to market in bundles. When aggregated, they're attractive opportunities.

We can provide services to those anywhere where they are developed across the US and also in the major Western European countries. So, we feel very well placed to exploit this. I think it's very much about it being effectively an emerging subsector as to why we have such a low market share.

Look, we have 20% or so share in most of what we do in the US. Why wouldn't we aspire to that? I think it's an opportunity over time but, clearly, it's one that's going to be very much accelerated into the next several years.

Petros Parras

Kate, on the margin, I think we covered this. We're confident we have three months within the year. We're going to go through the first six months. We're going to see all the three levers I referenced before on how we're performing, and we assess for H1 where this leaves us for a full-year expectation for the guidance, and we'll let you know in May.

Sabrina Blanc (Bernstein, Analyst)

Good morning, everybody. Just one question regarding the pipeline. Can you provide more colour on in which areas you would like to develop? Notably, following the Vermaat acquisition in the Netherlands, do you see other opportunities to develop the sectorisation in Europe?

Petros Parras

Morning, Sabrina. So, just [to reground], those $4 billion of new growth signings, around half of this is within B&I. B&I is the most outsourced sector. Having said this, we keep being surprised and keep delivering some great new signings in this sector.

I think sports and leisure looks very strong. We launched nearly now a year and a half ago, internationally, our Levy franchise. We have won some very large accounts, and we have great prospects in all of our international region.

I think when you look at the construction of the pipeline, and you think about healthcare and education, we truly have an opportunity within the first-time outsourcing in the less penetrated. It's a bit of a slow burn to unlock this opportunity, but we feel we have the sectorisation, the expertise, and the client credentials to unlock this over time.

To your point of sectorisation, if you think about North America, I think we are sectorised and fully sectorised across our portfolio, and this is what you see in consistent growth for the last 10 to 15 years.

If you move to international, the acquisitions we have made in Europe have sectorised us neatly on B&I. We think on Levy, it's an organic play for us as we go, and we may explore some opportunities in education and healthcare as we go. We feel with the portfolio we have today, we're well-placed to capitalise these opportunities across our key sectors. Dominic, do you want to reference anything?

Dominic Blakemore

Yeah, I think that's a great answer, Petros. I'll just add on from that, you know, let's remind ourselves that Vermaat operators are operating in Netherlands, France, and Germany, so immediately we effectively have a sub-sectorisation opportunity in all of those markets.

Separately, I see no reason why that offer can't be extended to other continental European countries. I think that would be about pace and timing to do that. I think what we've learnt is that it's very hard to build brands organically within our own stable, as it were. What comes from a great offer is the culture that comes with the leadership and the long-standing operation of that brand.

So, I think we feel very privileged to have acquired Vermaat, and we think that the strategy to sub-sectorise should be very much based on acquisition rather than own development. As Petros rightly said, we think we can play in somewhere like sports and leisure with our own very well-developed brand internationally and the brand standards that come with that. Hopefully that's helpful, Sabrina. Thank you. Thank you very much. Thank you all for joining us today, and look forward to speaking to you again at the half-year.

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