Compass Group plc
Procurement Deep Dive

Q&A Session

Agatha Donnelly

Welcome, everyone. It's great to have so many of you on the call today. I'm here with the presenting team and we ask that you limit your questions to the procurement topics discussed today. With that, let's move to the first question.

Vicki Stern - Barclays

Yes, hi there. I've got a few questions for you. Just firstly on the compliance rates. So you gave the Compass compliance rates in North America of 95% but can you give us a sense of the sort of ballpark number for the third-party members, what that compliance looks like? Anything you can share also for the UK for both Compass and third parties.

The second one was around, how does the business decide how much of the purchasing benefit you hold on to? You know, as a better margin for Compass versus how much you're ending up passing on to clients, - better prices which can help you drive obviously better contract wins or retention. Or to put it another way, I suppose, how much do your North American margins get boosted by this scale purchasing advantage there?

The final one was just about M&A, or potential future M&A across Europe and some of the other regions where you're growing procurement businesses. Is there much left to buy and how do you decide really what should be done organically versus buying in from potential scale?

Agatha Donnelly

Great. Thanks, Vicki. Thank you for your questions. I will hand over to Dennis to explain the compliance and over to Karl to talk about the UK compliance. Also, the margin impact or the purchasing benefits that we see. Finally, Clare will cover M&A in Europe. Over to you, Dennis.

Dennis Hogan

Thanks, Vicki. So in terms of the compliance from members - so as you noted that as Compass as our biggest member, it's 90% plus. Really the rest of our members are kind of on a continuum depending on their model and their spend. Much of our effort in that space is really geared towards driving conversions. We have technology tools, you heard earlier in the video, our MPower tool which helps identify if they convert their spend to our preferred suppliers, and that of course will increase their compliance.

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We have culinarians that get involved and go out and meet with them. We do cuttings so that they can see the quality of the products that we've contracted are of a standard that meets their needs. So I can't really give you a specific number, just think of it more as a continuum where they're consistently moving along a curve of higher compliance rates.

You did also ask about purchasing benefits, so I'll pause on that first and we can come back if you would like. I'm going to go over to Karl. Karl, you can talk about your compliance within your member space.

Karl Atkins

Thanks, Dennis. Thanks for the question, Vicki. I think very similar to the US - I mean for the Compass side of the business, in certain sectors we'll be seeing north of 90% compliance. Which is effectively - with the amount of spend going through preferred contracts where we've got the strongest deals. In other sectors, we've got more opportunities.

On our member side, we've made acquisitions over the past few years and there's a big opportunity to drive compliance and drive more competitive advantage for our members. So as Dennis said, it's a constant journey really but one of opportunity.

Agatha Donnelly

I guess we can answer the purchasing benefits question as well, Dennis.

Dennis Hogan

Sure. So Vicki, on that, I think - first and foremost, the way to think about the benefit that we get from our member business is it's that scale and growth and its ability to help lower Compass' costs and help us drive growth.

Fundamentally, the most important spend that we have is compliance spend. Again, we talked about Compass being 90% compliant. So as we add more members spend, especially when it's compliant, we tend to further lower Compass costs and get that virtuous circle of growth, specifically around the fees and the income that we generate from our third-party members.

Typically, we break down with either a collective fee or we keep a portion of the rebates. The majority of that income gets reinvested in the business. So you heard me talk about technology and [Empower], we have Q&A, we have resources that we dedicate to these third-party members to help them manage their own supply chain.

So again, the primary benefit is just re-investing or improving Compass' lower costs, or driving lower costs, and then just re-investing in technology and resources from the income that we do generate out of that third party. Karl, anything you want to add from your lens?

Karl Atkins

No, I think you've covered it, Dennis.

Agatha Donnelly

I think the only other thing I would say, Vicki, is the indirect benefits obviously manifest themselves in higher growth. So higher new business wins and higher

retention which obviously is hard to quantify. That's the other way to think about it as well. So I'll hand over at this point to Clare on M&A.

Clare Joyner

Yes, sure. Hello. I think you heard in the presentation how targeted M&A have really helped progress Foodbuy in the UK and that it hasn't just been about volume but it's about access to technology, talent, new sectors. That's also been the case with the M&As that we've made with Foodbuy in the US historically.

So I think when we think about the opportunity in Europe, I think as a region it's still relatively immature when it comes to the GPO industry, certainly compared to the US and the UK. Obviously, as a business you've seen us make these moves before, we're open to this as an approach and Europe's sort of no exception to that.

I'd also add that as you've heard, we've been progressing and advancing purchasing in Europe for some time. We're seeing some real benefits from this but the main value of Foodbuy is the incremental scale that it brings to Compass and our priority, obviously, is to grow Compass but at a country level. We have a huge market that we're going after there.

So Foodbuy is additive to that and we know that it works best where third-party spend really aligns with Compass spend and is compliant. Which is why, as I've said, we make very targeted acquisitions. Karl, anything you would like to add?

Karl Atkins

Yes, I think it said in the video, we've done a number of acquisitions to build our GPO position in the UK. We feel very good about the quality of the businesses that we've acquired. We're constantly looking at further M&A. I think there may be some smaller opportunities for us that would probably be largely organic growth now as we accelerate forward, so I think that's it in the UK.

Vicki Stern - Barclays

Great. Thanks very much.

Agatha Donnelly

Thank you, Vicki.

Jamie Rollo - Morgan Stanley

Thanks. Hello everyone. I've just got a few questions just about the competitive landscape. When you held a similar seminar in the US in 2018, and there was focus then on Foodbuy, it was twice as big as your two main competitors Integra and Avendra. Since then they've grown, it's fair to say, probably at a higher pace in terms of their purchasing scale.

Integra took I think that big Dining Alliance contract off you and they came - they're a similar size as Foodbuy in North America. So I'm just really wondering is the industry getting more competitive do you feel? Are there any large GPO partners Foodbuy uses which could sort of jump ship in a similar way to Dining Alliance, or indeed come back to you? Thank you.

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Agatha Donnelly

That one's you, Dennis.

Dennis Hogan

Sure, yes. Jamie, it's a really good question and I feel very comfortable and confident that the gap that exists and our competitiveness is equal to if not better than where we were back in 2018 as you referenced.

I think the first thing to realise is that we've - in the US or North America, we're more than double the size of our two competitors. The interesting thing is that that is all anchored in very compliant spend. I think some of the growth we've seen and some of the volumes that you see for the member side have much less of an impact than what we get from the very highly compliant Compass spend.

In fact, some of the advantages we're starting to explore now are we're doing dual sourcing in a category which, if you think about it, what we can offer a supplier at half of our volume is exactly or is even more than what our competitors can offer if they give the whole thing. So we're not diluting our savings, we're creating competition within that category. We really think that complaint strength is really anchoring our competitive gap.

Recently we took a significant third-party member in healthcare off of the competition and then we just recently renewed it. This was significant spend and the business, as I said, in healthcare that looked at this, it was - they were a longstanding partner with one of our competitors and the only way they would be willing to make that conversation was if there were material savings.

They did their own analyses and their own market [baskets] and most recently they just extended that contract with us without even bothering to take it to RFP. So we do feel - and I guess, lastly, I would say, Jamie, kind of proof in the pudding, and you heard Agatha reference this earlier, our ability to continue to grow Compass, its market share, is very much driven by our cost advantages.

You've seen that the gap between us - you've seen our growth since coming out of the pandemic, we've widened that margin with the two competitors and very much fuelling that is our cost advantages on the product cost side. I think that proof in the pudding is illustrative of the competitive gap that we are sustaining if not improving.

Karl Atkins

I guess just to build on Dennis' point. I think the benefit we have is the North American business and Foodbuy business which is 25 years old and has gathered lots of experience and insights for us all across the Group.

I think if we look at our value proposition now, the fundamentals of our GPO business, as Dennis said, is competitive scale that's right in the centre of what we offer. What we've been able to do is build layers to that value proposition. We've invested heavily in systems and technologies for our member business. We've invested in culinary resources to help them with menu development. We can take clients and members on a sustainability journey.

So if you look at the components of our value proposition that we've built over several years now, we feel very confident now. Not complacent, we're always thinking about how we innovate it, but we feel confident that it can underpin and sustain our growth.

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Dennis Hogan

Agatha, if can chip in on that piece as well. I think, Jamie, the other area where I think we're having an advantage, and I'm going to let Chris talk to this, is the qualitative side that we are now bringing to our clients. What do I mean by that?

We're very much engaged in partnering with our key suppliers and doing a lot of culinary innovation and I think it's giving us a quality and a differentiation that is setting us apart. Chris, you've been a big part of that.

Chris Ivans-Brown

Oh yes. Jamie, I think, Foodbuy managing our costs for us. Our goal from a culinary standpoint at Compass is to profitably drive margins, and to do that we need innovation, and we need quality. Obviously, there's a balance there. With Foodbuy helping us mitigate inflation, we bring that value back to our consumers and back to our clients so we supply a high quality program for them, hence driving our margin.

As we grow as Compass, we've exponentially, on our path, looking ahead at the next five to six years, and Foodbuy grows organically as well. So it's been an exciting journey over the last 10 years and it's a great forecast ahead.

Jamie Rollo - Morgan Stanley

Thank you all very much. Just to come back on the comments about you being twice as big as the other two. I appreciate we shouldn't focus too much on purchasing scale but were you talking about purchasing there or about the actual contract catering business where, of course, you are twice as big? Because Integral quoted something like £36 billion of purchasing, but maybe they include non-food and beverage in that as well.

Dennis Hogan

Yes, now I was - sorry. Just for clarity Jamie, I was specifically talking about Compass as our key client in North America, whereas you know we are double the size. I might just - just to comment on the total volume when you see those numbers and so forth.

I think when a significant portion of that is, as Vicki asked earlier about the levels of the compliance or contract utilisation. When a significant portion of that is not bringing growth to a supplier, it might be business they already have in a restaurant channel, things like that, it's just not of the same value as what we see in that core Compass growth or in some of our highly compliant members.

So all of that factors into where the relative leverage and profitability impacts we can have.

Jamie Rollo - Morgan Stanley

Thank you very much.

Jaafar Mestari - BNP Paribas

Hi. Good afternoon. I've got three if that's all right. The first one is just I'm going to try again on member compliance. It doesn't sound like you have a blended percentage number for us today. Perhaps if we could have some colour on the range there. Do you have longstanding members that are very similar to Compass, 90% plus, and then how low are the newer recruits? What's the long-term upsidethere?

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Then on other countries, is there anywhere you're ready to go? Maybe today it doesn't quite make sense to go full GPO but - I remember that - I think that last year you acquired in the UK, and you also acquired Zandrian in the Netherlands. So I assume that's ready to go if you [felt that the market was mature enough] tomorrow morning.

So how's that curve there? Are there other countries? I mean in France, other countries where you would actually switch on the GPO under certain conditions?

Lastly, just in terms of Foodbuy versus Compass Food Service, your UK [client's] testimony is a university client. Obviously, colleges are very fragmented and independent. They're not one university client but what are those clients destined to become? Are they going to stay members of Foodbuy because they're fragmented and small and they actually want to stay in-house? Or do you have examples of client journeys like that where we do procurement for you and then at some point we actually cross-sell or up-sell food service or are they completely separate?

Agatha Donnelly

Thank you, Jaafar. I'll hand over the first question on the member compliance to Dennis, the second about the Country maturity curve to Clare, and the final one to Karl.

Dennis Hogan

Jaafar, sure. Just to give you a little bit more colour on the range of our members in terms of contract utilisation. So I talked about healthcare, especially on the acute care side where we bring in large partners. They may be GPOs in themselves. They tend to mirror the managed order guide, and the menus, and the recipes that we would offer with Compass in either Medirest or Morrison in the US.

So when we bring in self-operated partners in that space, the contract utilisation is very similar and very close to what we achieve at Compass. If I were to go in the complete opposite direction, there might be - let's take just a regional restaurant chain where there's a lot of growth there. I can tell you that the majority of what a restaurant chain would be buying is a couple of things. Probably they're buying a lot of private labels from their local wholesaler or distributor.

They might - let's say it's a concept that's got some unique SKU, maybe chicken wings or whatever, they'll probably have their own direct deal on that and majority of their spend is going to sit with their own direct deals. They might use us for non-food items, maybe some of the paper or plastic items, things like that where we can bring economic advantage.

So despite its varied nature, you get a range of contract utilisation. Fundamentally, as I referenced in my answer to Vicki's question, we consistently see opportunities to drive improvement in that utilisation. Our MPower tool basically provides data that has the net price, or the list price and the volume allowance, on our deals. They can go online, and they can figure out - they can self-service and go, wow, if I convert this from my supplier to this supplier I'm going to save X amount of money. I'm going to get that benefit.

Then of course our supplier partners win. So that's why we're just constantly reinvesting in data, technology, and tools to help guide that compliance so that every business that partners with us is moving up that continuum on the contract utilisation curve.

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Agatha Donnelly

Before Clare says anything, I think the only other thing is maybe to bring Chef Chris in to talk about how he can demonstrate with the culinary skills what we can do with various items and how we can drive compliance and saving clients a lot of money. So Chef Chris, would you like to say anything on that?

Chris Ivens-Brown

Yes, obviously this has been a journey for us, and we've created an incredible process that benefits our clients from a procurement standpoint. Driving quality where – you know - we have 27 sectors agree on certain products, that then gives Foodbuy the ability to lower cost and increase our quality which some of our sectors might not be able to do.

We create recipes around these programs to drive into our business. Then this is all shared with our members. So the work and due diligence we do then gets passed over to all of our members to be able to benefit. So it's a huge opportunity for them to back offer what we've been doing from a procurement - and that goes to food and non-food, and equipment, and uniforms, and chemicals, and everything that we touch in our business and in our portfolio that affects our member group.

Agatha Donnelly

Thank you, Chris. Now over to Clare.

Clare Joyner.

Thank you. Thanks, Jaafar. I think the question for me was about other countries and where we might be ready to go with a Foodbuy model. You referenced, yes, a couple of small sort of buying groups that we've got established. So perhaps to give a bit of context on that and then to explain how we're thinking about the future.

So we've seen over the last few years some of our countries in Europe - and remember we have 18 - all very different, but some of our countries have responded tactically to market opportunities. They've established some small buying groups and you mentioned Zandrian, we have Zandrian in Belgium and the Netherlands. We have Optima Pro who services senior living for us in France. Another example might be Norway, where we have a very well-established consortium-type partnership with two large hotel groups.

So we've got these small businesses, small in relative terms, but we have the potential to grow. I think we don't - we haven't branded these businesses Foodbuy. For us Foodbuy is a multisector full-service, advanced procurement organisation and these that I've described are typically more channel-specific, simpler, and smaller with perhaps more limited-service offerings at the moment.

So we do think there is really good potential for a Foodbuy model to operate and particularly in our larger markers in Europe. We're not putting a timeframe on it right now. We're doing lots of other things, as you're aware, to improve our purchasing. We are expanding our capabilities; we're taking the best practices and the blueprint from North America and we're also leveraging the growth that we're seeing in the European region to unlock those benefits for us.

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So, you know, we're doing that, we're reinvesting in talent, in data, in systems, and really just trying to ensure that we build those very, very strong foundations that will be so important for us in the future.

Agatha Donnelly

Thank you, Clare. Finally, Karl on the last question.

Karl Atkins

Yes. On the last one about the - I guess the Foodbuy model versus the fully managed service opportunity, I think - it's fair to say I think the market opportunity for both the managed service and our Foodbuy business is significant. Certainly, for some members, I think coming to Foodbuy is the first step of a journey potentially towards a managed services. In other instances, these members are really only seeking supply chain and procurement support and there isn't that desire to outsource.

So that's the way we look at it. I think that applies across the Group actually. Dennis, is there anything to build on from the US?

Dennis Hogan

I think you handled that well. I'd say a couple of things. There are several channels or sectors that we have like gaming, the restaurant channel and so forth, that are never going to naturally be conversions to the managed service side because that is not what we do.

I think sometimes when we find the self-opp are looking for investment, they want to upgrade their facilities and so forth, that's when they tend to say, we don't just want supply chain, we want to go fully managed so that we can make a more complete investment in the partnership. When we do see that, we've had some successful conversions to the managed side.

Jaafar Mestari - BNP Paribas

Thank you very much all.

Agatha Donnelly

Thank you, Jaafar.

Karl Green - RBC

Yes, thanks very much. Just two remaining questions from me. Just in terms of you as a very large buying customer, are there any kind of limits with some suppliers, perhaps regionally or even naturally, where they're going to start feeling uncomfortable about how much buying power you've got? Or are you still kind of miles away from that potential limit?

Then the second question, just going back to the point about where you're going direct to growers or food manufacturers. Just how much visibility do you have over those supplier economics in terms of your ability to sort of push back?

I'm just thinking here in terms of some of the complaints that we're seeing in the UK in various farming organisations saying that supermarkets, in particular, are being very, very aggressive. Is the Group more broadly at risk of getting into political crosshairs at some point, putting growers in a really tough spot? Thank you.

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Agatha Donnelly

Thanks, Karl. I'll hand over the first question to Dennis, please, on the limits to that growth.

Dennis Hogan

Yes, I'm actually - and if I don't fully answer the question, Agatha, you can steer me a little bit. When I look at the runway we have in North America with the size and scale that we have, are we starting to hit limits and so forth? I'm actually quite bullish on things as we move forward.

I think I mentioned with our size and scale now, having the ability to dual source in certain categories and the economic value that that's bringing us. I would say that as we grow, we're able to go back to our supplier partners - if you think about the marketplace today where retail is softening a little bit, our growth is really valuable to them and they're willing to continue to invest, add resources, and continue to align with us.

Then other areas where we're unlocking further value, as we get bigger some of the small categories, and Chris knows this, historically, that we didn't have enough volume necessarily to contract, are big enough now where we can do regional or national deals. We're unlocking a lot of value there.

Then finally, I would say on the members' space, just significant opportunities to grow, whether it's that improved contract utilisation on existing members or new members that we bring in. Especially when they're bringing in compliance spend.

Agatha Donnelly

That's great. Thank you, Dennis. I'll now hand over to Karl on the direct relationships with the farmers.

Karl Atkins

Yes. I mean wherever possible we will go as far upstream as we can to source and in particular growers and food producers. You know, we pride ourselves on long-term sustainable supply relationships. I mean, the point of sourcing; we'll really understand the economics of that supplier and we'll make sure clearly that we contract it competitively. We're very focused on making sure there's a sustainable supply chain behind it.

As an example, in the UK we've worked with the same milk supplier for well over 15 years and we've got mutual investments in that operation to make sure there's a sustainable supply chain.

In addition to that, I think there are a number of different initiatives across the Group. We're very focused on small/medium enterprises, social value organisations, and making sure that we can help scale those organisations across the country. So very focused on making sure that we create that long-term mutuality to the relationship.

Leo Carrington - Citi

Thank you. If I could just start on the definition of GPO compliance. Is this the compliance by the Compass chef or the client decision-maker? The reason I ask is, how do you handle these areas of ambiguity where perhaps a client is pushing for a locally sourced option of equivalent quality and price versus a GPO SKU?

Secondly, for third parties using the GPO, in terms of maximising the compliance, what incentive is there for the chef or the manager to buy through the GPO aside from cost? Or is it - does it really boil to a cost-benefit for those third parties? Thank you.

Agatha Donnelly

Thanks, Leo. I'll hand over to Dennis and Chef Chris as well who can bring in some colour around what the culinarians are doing around compliance levels as well.

Dennis Hogan

Yes, I think, Leo, there were a couple of aspects to your question really. One was, who is making that decision locally? It's really interesting, what we try to instil, certainly with Compass but with our third-party members, is this culture of compliance. One of the mechanisms that we use to achieve that is we agree on what we call a managed order guide. So that would be culinary-driven, and then Foodbuy or procurement supported.

Then where we can get very complaint is that we'll lockdown that order guide. So the chef manager, they may have some flexibility within there but primarily they're going to be ordering off of an order guide that consists of products that we've contracted. So that really makes a difference.

Now the client, whether it's a Compass client or a third-party client, there may be elements they want to infuse. They want to include more locally sourced - you talk to Karl about some of the growers, we utilise some minority-based or byproduct growers, things like that. We try to leave flexibility for those elements. Chris, you have experience in that realm.

Chris Ivens-Brown

Yes. I mean, we understand we're a large company, but we operate at a local level. The local piece is so important to us, that diversity and minority of companies. Our local farmers are important to us and our clients. Now, that all funnels up to our categories across very diverse sectors and all the culinarians that work on picking those products.

For me in Compass, it's about chain of custody and we need to make sure that we know, and I said this in the video, where our product comes from. If it comes through down to our produce house to a local farmer or from a local bakery, that chain of custody from a quality assurance standpoint on that ingredient is so vital.

So we have all those resources and that's one of the biggest benefits of our Foodbuy Team and what they do for us from a culinary standpoint. So they protect us, they protect our consumers, and also, we help some of these smaller companies grow exponentially throughout North America where they've never been able to kind of break that ceiling before.

All of our products and ingredients are all tied into recipes and programming and so we have to make sure we protect our customers from allergens and making sure that the farmers and meat houses have metal detectors. These are all things that people may not think about but have tools that we then pass over, again, to the GPO Group.

Agatha Donnelly

Did you want to speak about maximising incentives for third parties?

Dennis Hogan

Yes. I think the question there was - is a lot of that decision-making in the third party, is it more of a black-and-white financially driven decision or is it broader than that? I think - I'm hopeful you're getting a sense that it's a bit of both really. I mean certainly, the economics are a driver and that's going to get everyone's attention, but some of the other areas that are important are quality, availability, sustainability, quality assurance, all those elements.

I think when we bring product availability or new deals to our third-party members, we really try to represent it, not just the economics, but in a holistic way. Karl, you guys face similar elements of trying to bring a holistic view to conversions in the UK.

Karl Atkins

Yes, I think it's a very similar benefit, as you said.

Leo Carrington - Citi

Thank you very much.

Agatha Donnelly

Thank you, Leo. I believe that was our last question. Wonderful. Thank you very much for joining us today. We hope that you found this session informative. We look forward to connecting with you again at the full year which is on 26 November. Thank you very much.

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