Compass Group Q3 Trading Update

Presentation

Dominic Blakemore

Chief Executive Officer

Thank you very much. Good morning, everyone. As usual, I'm here with Petros, our CFO. We've had another strong quarter with all regions performing well. We're particularly pleased with the acceleration in net new business, which is now in the middle of our range, with improvements in retention to about 96%. We're also continuing to see a positive trend in volumes. Industry trends remain very positive. We have an exciting pipeline of new business opportunities to support growth organically and through strategic M&A.

As a result of the stronger than expected top-line performance, we've upgraded guidance for the full year. We now expect underlying operating profit growth to be above 15%, proven by higher organic revenue growth of above 10%. Let's move now to Q&A.

Q&A Session

Jamie Rollo - Morgan Stanley

Thank you. Good morning, everyone. Three questions, please. First, as you note, very good, better than expected volume growth. What's driving that, and were there any one-offs in the Europe figure given that acceleration from Q2?

Secondly, just sticking with the volume numbers, clearly there's a pretty high drop through margin benefit on those, but it doesn't look like you're changing your implied margin guidance. Is that just natural conservatism, or is that the offset from the accelerating net new business in the second half?

Finally, it might be a little bit early, but I don't think we'll hear from you next till November. So how are you feeling about next year in the context of the 4% to 5% net business wins, and also what consensus is expecting? Thank you.

Dominic Blakemore

Thanks, Jamie, and good morning. I'll take the first and third, and then Petros can pick up on your question around drop-through or margin. First of all, no one-offs in the EME number. It's a clean read. In terms of the strength of volume growth, obviously we expected and have seen some moderation as we've lapped strong comparatives in the prior year. We're pleased to see volume growth is holding up around the 2% level.

We think in part that's due to the value that we offer that we talked about previously relative to the high street as we managed inflation. So we think that's a positive for the story. In terms of next year and your reference to net new, we're in the midpoint of the net new range in Q3. We expect further slight acceleration in Q4, which means we've got good momentum going into next year. As you know, we can probably see about six months out, so that's positive for the first half of the year.

In terms of ARO new business, we have $3.5 billion, which is 100 million stronger than the LTM read at the end of the first half of this year. The pipeline looks good, so we've got every reason to be optimistic on gross new business. Retention rates are above 96% now, so we're seeing those above 95% in Europe, above 96% in the other two regions. So we're in a good place on retention. I think all the indicators are positive and we'd expect to be in the 4% to 5% range on a full-year basis for next year.

Just taking that a little further in terms of what that means for growth in ‘25, as you know, pricing will moderate as inflation moderates, and we expect to see that sequentially occur through the next 12 months or so. Also volumes, as we continue to lap the very strong comparatives, we expect to come up a little. Although we remain optimistic on what we're seeing in terms of value, as I described.

So look, all in all our guidance as we look forward is for mid to high single digit organic growth, and at the moment we'd expect to be in the middle of that range for next year on the basis of the various different inputs of net new price and like-for-like volumes as we see them today. Petros, do you want to pick up on that?

Petros Parras

Yes. Good morning, Jamie. I think we continue to be pleased on the volume with plus two for the quarter. I think on margin progression, there is not any change versus what we guided in half 1. As you rightly said, net-new accelerates in the second half, so we expect to continue to make progress in the second half of [month] and half of the rate of the first half we had for the year.

Jamie Rollo - Morgan Stanley

Okay, thank you very much indeed.

Vicki Stern - Barclays

Yes, hi, morning. Just firstly wanted to come back on some of those comments there, Dominic, on the like for likes for next year. So, just on price, obviously, I guess price for you within like for like has a time lag effect of what we're actually seeing on inflation. I think one of your competitors is signalling something like 3% price growth expected next year.

Clearly, you're talking about a moderation from the 4% or so currently. Just any sort of flavour as to do you still expect overall an elevated level of price growth next year, just obviously slower than the pace we're seeing at the moment.

Second one on retention, you talked about now being back above 96%. I guess really just your confidence level now and being able to sustain that above 96% level as we go forward from here. Then the last one, just on the balance sheet, same old question really on share buybacks versus M&A to understand are you still very much more minded to focus on M&A from here? I know there's still a share buyback programme underway for the remainder of this year, but how should we think about the next allocation of capital? Thanks.

Dominic Blakemore

Thank you, Vicki, and good morning. Obviously, we're talking about inflation and price trends for the next 15 months when we're giving guidance for next year. So it's still a little early for us to be doing that. We've seen pricing come off sequentially through the course of this year to, as you rightly say, the 4% level that we've seen in quarter 3 from around 5% in the first half.

If you look at the inflation trends we're looking at at the moment, globally blended food inflation is 2%, 2.5%. Labour's around 5%. So it gives us around 4% cost inflation. We probably expect to see the labour inflation trend downwards now, which will drive cost inflation down and therefore will have an impact on pricing as well.

So I think at this point, if we were thinking of 2% to 3% on a full-year basis, I think that would feel sensible planning assumption for everything you see today, and most likely sort of elevated in the first half and slowing again in the second half. We'll update you on that as we go.

Then we'd expect to see positive volumes. We may see again a little bit of a sequential coming off as we lap the strong prior year recovery, but we still expect to see volumes being positive as we go forward.

Then in terms of retention, everything we've seen today suggests that we can maintain retention about the 96% level. We're super focused on retention, really pleased to be back where we were. We know the pipeline of business that's out for rebid. We've just shared amongst our leadership some super initiatives we're doing. You're very familiar with our strategic alliance Group approach to the key accounts, but we're also now working much harder on the tail of smaller business and how we improve retention levels there. We've got some great best practices that we've been sharing around the business.

So we always think that there is more to do that can potentially gain us marginal - provide us with marginal gains as we go forward. Actually, sustaining the retention of about 96% is our ambition and our belief that we can achieve.

Petros Parras

Good morning, Vicki. I think on balance sheet, as you rightly said, we will continue to execute the survey back by end of this calendar year. We're happily placed within the 1.0 to 1.5 range in the leverage. I think as we continue to entertain some M&A opportunities we discussed in the past, we'll provide some update in the full year results on what is going to be the plan for next year vis-a-vis M&A and share buybacks.

Vicki Stern - Barclays

Thanks very much.

Ivar Billfalk-Kelly - UBS

Good morning, everyone. I want to talk some volumes again and you mentioned specifically the value gap versus the high street as being a driver of that, and presumably there's an element of macro linkage to that. In future, if we actually see the macroenvironment improving from where we are at the moment, do you see risks to those volumes?

Secondly, could you update us on your portfolio rationalisation? I don't believe there's anything new on disposal this quarter. Then finally, just in the US, if after the election, there might be an increase in domestic manufacturing. Could that be a driver of higher future revenue growth expectations given your high exposure there? Thank you.

Dominic Blakemore

Thank you for those. Taking the question on the US first, we've actually seen the benefits of the expansion in manufacturing through the *Inflation Act* under the Biden administration and that's been beneficial to us. Yet of course if we do see onshore manufacturing in the US post the election again, we believe we're very well placed to benefit from that.

In terms of the value gap, you'll be familiar with that. It's in part due to structural nature of our industry where we don't pay rent rates, commissions, and so forth. We're also able to better manage inflation when we were able in particular to change our menu mix more than high street restaurants would be able to do. So we believe that that gap has widened through the last several years and makes us more attractive to our consumers.

Look, if the macro were to improve, the gap is still there and we're still attractive to our consumers. I think at this point in the cycle, there's still a lot of focus from very savvy consumers on where they get the best return for their money. We think that that place is us.

Petros Parras

I think on your second point on disposals, just to remind us, I think our strategy to streamline the portfolio in [unclear] countries has served us really well. We're able to double down on the core, invest in the core markets and capitalise the structural runway. I think you rightly said you haven't seen any further disposal. We're largely completing the programme.

There might be [unclear] countries, I would say, in the future, but nothing material for the Group as we move forward.

Ivar Billfalk-Kelly- UBS

That's great. Thank you very much.

Kean Marden - Jefferies

Thank you. Good morning, all. I wonder if you just might provide a little bit more insight into the big pipeline. Please appreciate some - you're generally a little reluctant to put a dollar amount around it, but any narrative around that would be helpful and just how the competition, particularly looking at first for fund outsourcing, has changed or remained stable.

Then a few questions on M&A, if I may. So have you added a few more bolt-on acquisitions recently? I've heard potentially there's a bolt-on in France. Do you feel that the net impact of acquisitions and disposals, for purposes of revenue and fiscal ‘25, is a bank neutral or might you now be in a position where there's a small tailwind from that.

Then also on M&A, processes now getting a little bit more competitive, perhaps as private equity becomes a bit more engaged and therefore the implications for exit multiples. Thank you.

Dominic Blakemore

Thanks again. Thanks for those questions. I'll let Petros respond on M&A. Just in terms of the big pipeline, as we said in a number of these calls, it looks as good as it's ever looked. We have a gross pipeline and the coverage that we need to be able to deliver the growth in new business we require to be able to deliver the 4% to 5%. We feel good about that.

In terms of the first-time outsourcing, we're trending at broadly the same levels in first-time outsourcing contribution to growth in the third quarter as we have done through the last year and a half or so, which is very positive. We think we feel that the pipeline, particularly in North America, is a bit more skewed to first-time outsourcing in this next phase, which is again, very positive. So we feel good about the great prospects across all three of our regions as we go forward, and we're closing the year quite positively.

Petros Parras

Morning, Kean. I think on the M&A, let me just try to answer your three points. I think we'll continue to entertain the bolt-on acquisitions. They have served us really well across the globe. In terms of guidance for next year, it has remained unchanged. There is a bit of headwind. There is about $200 million reduction revenue with average margin. As we move to next year, we have guided this in the first half.

I think on the private equity point you made, I think what we're witnessing, we're witnessing more opportunities to present themselves. We think this is a consequence of a higher interest rates for some of the funds to realise value. We found ourselves to be nicely placed to capitalise some of these opportunities if we think it's the right thing for us within the strategic framework we have.

Kean Marden - Jefferies

Okay, thank you. Understood. So just to be clear, despite probably a few more bolt-ons, we're still looking at a small revenue headwind from M&A, fiscal ’25, Petros.

Petros Parras

Yes, yes, Kean, we get it. It's about $200 million reduction in revenue for next year with average profit margin flow down.

Kean Marden - Jefferies

Yes, okay. Thank you very much, Petros.

Dominic Blakemore

Thank you.

Kean Marden - Jefferies

Thank you very much.

Neil Tyler - Redburn Atlantic

Good morning, thank you. Just one follow-up really on the like-for-like volume trend, particularly in Europe. I suppose in previous calls, more recently you've pointed to BNI and the return to office and higher participation. Could you shed a little bit more detail on the trends within that strong growth that you're seeing in Europe currently and how you view those trends and the backdrop supporting them. Thank you.

Dominic Blakemore

Thank you, Neil. We've seen good growth across all of our sectors and all of our regions, which is extremely positive. The volume growth is positive in all sectors, and again in all regions. So positive in Europe but equally positive in North America, which is very good.

In B&I, I think we're still seeing the return to office benefits, but I think we've got other things going on as well. We still have a higher than previous level of event catering. We're seeing higher caps in sports and leisure. We're seeing higher spending in higher education.

So it's broadly across the piece, and as we said a few times on this call, I think what we think is most relevant is how keen our pricing is relative to the high street. I think that's very visible now as some of the high street price points are attaining new levels which are very noticeable and therefore the discount that we offer is increasing all the time.

Neil Tyler - Redburn Atlantic

Okay, super. Thank you.

Jaafar Mestari - BNP Paribas

Hi, good morning. Just a couple on acquisitions for me please. In the release, you specified that the disposal of Brazil happened in May. If I'm correct, the disposal of China also happened in April in the quarter. I guess where I'm going here is because of the disposals, it's slightly difficult for me to assess how much you've been spending on top of the very clear medium-sized deals you flagged like CH&CO and Hoffman. So yes, just confirmation of when does this happen, please.

More fundamentally, can you give us some quantum for how much money you've spent elsewhere other than CH&CO and Hoffman? What's the quantum of the really small deals that we haven't seen in the trade press? What sort of extra skill have you been adding and in which regions, please, beyond the headline deals?

Dominic Blakemore

Thank you, Jaafar. Good morning. Let me pass that to Petros.

Petros Parras

Good morning, Jaafar. I think as you rightly said, we completed Brazil in May. China was in April. Our net M&A spend on a year-to-date basis is $836 million. In terms of acquisition costs, we have disclosed CH&CO being around $590 million, Hoffman's around $290 million, and the balance in acquisitions is North America, which is about $150 million. This gets you to the $836 million net of the proceeds from the disposal.

Jaafar Mestari - BNP Paribas

Thank you very much. That's very clear. So I guess it does look like it's mostly those two headline food service deals, CH&CO, and Hoffman, and then the North America.

There isn't a long tail of extra additions or extra scale you've been adding in France, Netherlands?

Dominic Blakemore

No. Again, if you think what our level of spend has been historically, [since] the $300 million to $400 million on the bolt-on infills, those have typically been in North America. We've been trending slightly below that level. We may return to that level as we go forward. There's still a healthy pipeline of smaller deals. It's really all about timing. We remain very excited by the infill. They bring us scale and capability that they help with our margin and they help with our geographic and regional footprint, particularly in vending in North America. So we're excited by that.

The bigger deals, as you've seen, have been in Europe. There's a few more that we remain interested in, which are active processes. We'll share with you both the strategic intent behind those, the returns and so forth, as and when we close them. I think over time, there'll be an opportunity for smaller infill in Europe as well as we start to build some of the same capabilities. So we feel pretty excited about what M&A can bring us and how that inorganic growth can very, very much complement the strong organic growth we see.

Jaafar Mestari - BNP Paribas

Super. Thank you.

Joe Thomas - HSBC

Good morning. Three questions, if you wouldn't mind, please. Firstly, I think you mentioned that you were talking about new business mobilisation in Q4, and I think the implication was that there might have been a bit of a drag on margin in Q4. Could you just clarify whether that is the case and what the scale of that drag might be? Then related to that, the usual question about any update on recovery to historic margin levels and how long you think that's likely to take.

Finally, I think Dominic, you seem quite optimistic about the cost outlook. One of your competitors has talked about pockets of some food cost inflation. I just wondered if there was any of that that you're seeing at all or anything that we need to keep an eye on there. That's it. Thank you.

Dominic Blakemore

Thank you, Joe, for those. Look, in terms of quarter 4 new business, it's all baked into the guidance we've shared today. So as Petros said, we made 50 bps margin progression in the first half; we expect 25 in the second half. Within that, there is the expectation of higher new business in the third and fourth quarters. So we've already taken account of that as we go as it were.

In terms of recovery to historic margin, we see no impediment to attaining historic margin, and we see no impediment to going above historic margins as we go forward. We think particularly with the work we've done on the portfolio, the work we've done on the M&A, the fact that we've demonstrated that we can manage the heightened cost inflation, we expect to see ongoing margin progression as we go now.

We're not putting a timeframe on when we get there because as we said before, if we enjoy higher growth, the margin progression may be a bit slower. If growth were to come off, we'd expect margins to go a bit faster. You should expect to see us making steady ongoing progression year over year from here.

Then actually just in terms of the cost outlook, I've spoken to blended inflation around the 2.5% level. That takes account of, as you rightly say, some pockets of higher inflation in certain markets. Broadly we've seen food inflation come off quicker. As you would expect, particularly as we've seen the energy cost levels come down and the contribution that makes to food manufacturing costs.

So we feel that that's what we're seeing at the moment. We obviously reserve the rights of the exchange to come back, but as we've shown, I think what's most important is when inflation picks up, we've been able to price for it. When inflation slows down, you see the impact on pricing. What we have to ensure we're doing is that we've been super fair to our clients all the way through on this. That's absolutely the way we think about it.

Joe Thomas - HSBC

Thank you.

Dominic Blakemore

Thank you all for your questions today. As you've heard in conclusion, we've had another strong quarter and we're particularly pleased with the acceleration in net new business growth and the improvements in retention. Have a great summer and we'll speak to you again in the autumn.

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