Compass Group Q1 2025 Trading Update

Presentation

Dominic Blakemore

CEO

Good morning, and welcome to our Q1 trading update. As usual, Petros is alongside me. We've had a strong start to the year, with organic revenue growth over 9%. Net new business remains excellent, and accounts for about half of our growth, supported by strong client retention. Outsourcing and industry trends remain extremely positive, underpinning our exciting growth momentum. New business signings over the last 12 months reached another high of $3.6 billion on an annualised basis, and our pipeline is the strongest it's ever been.

You've seen we're also continuing to invest in attractive growth opportunities, and for the year to date, we've spent around $1 billion on M&A, mostly on Dupont in France and 4Service in Norway. They're fantastic businesses with strong management teams, which further enhance our capabilities in sectorisation, helping to unlock new market opportunities.

Our 2025 guidance remains unchanged. We expect to deliver high single digit underlying operating profit growth in constant currency, with organic revenue growth above 7.5% and on-going margin progression. So in summary, we're really pleased with our start to the year, as we continue to deliver on our strategic priorities. The business is in great shape, and we're really 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. First, net new sounds like it's around 4.5% or so, obviously a very good number, a bit of a slowdown, though, from Q4's 5% or a bit more, I think it was. Has it slowed, and if so, why? Because ARO and the retention numbers do sound very good.

Secondly, again, probably nitpicking a bit, Europe again a good number, 8.5% or so, but I think Q4 was up about 11%. Is there any weakness in D&I or the macro side behind that, or is that just phasing, et cetera?

Then, finally, a more generally comment on the new US administration. Any impact from tariffs? I think one of your competitors talked about maybe a 30 basis point margin hit, or indeed from the immigration policies on labour cost? Thank you.

Dominic Blakemore

Sure. Thank you very much, Jamie, for those. Look, first of all, net new, just taking a bit of a step back, I think we're signalling here today that you should see net new strongly placed in our 4% to 5% range, and that'll be the fourth consecutive year of us delivering at those levels. So I think we're really, really pleased with that, and that underpins the medium-term organic growth guidance that we have in our framework. I think the reason I stress that is, inevitably, we're going to see in quarters puts and takes, as larger accounts mobilise and demobilise. We had a very strong half two last year in fourth quarter. We started well this year. We expect to be around the midpoint for net new at the half year and based on how we do in the first half of this year, we'll see if we can improve on that in the second half. So, look, on net new, we're really, really pleased.

In terms of Europe, I don't think there's anything to read into that. We're not seeing any particular change in volume. In fact, like for likes in volume remain positive and strong in Europe, and we expect to see an acceleration in net new in that region as we go through the year, as well.

Then, finally, on the change of government in the US, look, under the last two administrations, we've performed very strongly. We see no reason why that should change now. Reflecting on a couple of the specifics on that, in terms of any potential tariffs, as you know, 85% to 90% of our purchasing in all of our major markets is domestic, so unlikely to be significantly impacted by tariffs.

If we were to see an inflation in any way, look, I think we've now demonstrated our ability to both mitigate and price. Of course, when we see inflation, it's an opportunity for us to widen the value gap to the High Street, and we've seen that as a positive impact on volumes. Of course, inflation is also an accelerant of first time outsourcing, which continues to trend very positively as well.

So - and I think the only other aspect of that would be to add, look, if we were to see the tightening in any other economies as a result of any policy changes, again now, we're confident in the variable nature of our operating model and our ability to mitigate for volume. Again, those conditions would act as an accelerant for outsourcing, and we're confident we could capitalise on that. So I think net-net, in terms of the change of administration, we feel the macro remains positive for our business model.

Jamie Rollo - Morgan Stanley

Great. Thank you very much.

Simona Sarli - Bank of America

Yes, good morning, and thanks for taking my questions. So I have three, please. One is a follow up, and it's related to the net new business wins. So if you can elaborate a little bit more on the trajectory of growth from net new business wins for the rest of the year, also considering indeed the tough comps, as you said, in the second half.

Secondly, on pricing, so if I back solve from what you reported in Q1, it looks like pricing for you in Q1 has been contributing almost like 4%, so pretty much similar to the Q4, and if I look instead at Aramark and Sodexo, they have been talking more about 2% to 3%, so what can explain this differential, and where is it currently trending at for Q2?

Lastly, if there is please any update on M&A and any potential share buyback later in the year? Thank you.

Dominic Blakemore

Simona, thank you very much for those. Why don't I hand over to Petros on those three?

Petros Parras

Hi, Simona. Good morning. On net new, I think you heard Dominic. We expect to be in the first half of the year around the middle of our guidance, around 4% to 5%. This is backed on strong retention, sustainably in line with our second half of last year, above 96%. Our forward-looking indicators on an ARO continue to look positive, and the pipeline is very strong, so we expect to be within our range of 4% to 5%, maybe [more] in the first half. We're going to work hard to see if we can create more opportunities in the second half.

When I go to your pricing and volume, I think for Q1, pricing was about 3%. It's about a point lower than Q4, in line with our expectations. When I look at volume, we're continuing to see positive net contribution on organic, a touch down versus half two, as expected, but we expect to have strong net new in the first half, as we explained, and then a good quarter one and half year.

When I go to full year on your share buyback question, I think on the M&As, we have executed about $1.5 billion investment in the business with Dupont and 4Service, which is great. Not a lot has changed what we discussed in November. We have a couple of opportunities we're looking at in the M&A. If these opportunities present themselves, we are going to capitalise on those. If they don't, we'll balance the share buyback for the remainder of the year, and we'll give you an update in May.

Dominic Blakemore

Thank you, Petros. Simona, all I'd add to that is - and hopefully you're hearing that consistently from us now over a number of calls - we're a growth business, and our capital is best served in CapEx and M&A that allows us to maintain sustainable growth in the range that we've expressed in the framework and net new in the 4% to 5%. So if we bias to CapEx and M&A, don't be surprised.

Simona Sarli - Bank of America

Thank you.

Simon Lechipre - Jefferies

Yes, morning. Three questions, please. First of all, on the net new wins, any different performance across Europe and the US in Q1? Just curious on the trend there. Secondly, any update on the current cost inflation between food and labour and the [UTO], does it compare with the scenario embedded into your guidance?

Lastly, just on Hofmann and CH&CO, I wondered if you could get an update on the integration of these two basis and how they have performed since they have been consolidated. Thank you.

Dominic Blakemore

Thank you, Simon. Look, first one on net new, look, we've had - North America's had a very good run on net new and a very strong first quarter, so that does imply that international regions outside of North America are a little slower. We expect on the basis of the mobilisations that we're aware of that the international region will accelerate through the year, as well. So we're actually really pleased with that balance. Let me hand over to Petros for inflation and the acquisitions.

Petros Parras

Good morning, Simon. On inflation, as I mentioned earlier, Q1 was about 3%, 4% in labour. We talked before labour being more sticky, 2% in food, the blend of 3%. It's in line with our expectations, but we always keep an eye on inflation, and I think we have - [more] we have proven we can manage well a moderate level of inflation, demonstrating our value to the clients, so we're feeling really good about this and in line with our guidance.

When it goes to CH&CO, I think a couple of weeks ago, we reviewed within our business both CH&CO and Hoffman that we acquired in Germany. I think what we're seeing, we're seeing both acquisitions being ahead of the business cases we have signed up for, management teams being very energised by the sub-sectorisation, the portfolio opportunity we have to serve more clients and consumers in areas we did not serve before. It has enhanced our flexibility in the operating model, and we feel positive about these acquisitions, and so far, they performed really well.

Simon Lechipre - Jefferies

Thank you very much.

Jaafar Mestari - BNP Paribas

Hi, good morning. I just wanted to come back on this concept of the ramp ups of the new business being lumpy, I think you said. Competitors have explicitly said very slow and accelerating in H2, so it's a little bit of a trend. Just curious if that's a coincidence, if that's a function of the nature of the businesses. Are you signing bigger things, more first time outsourcing? What explains that slow ramp up?

Secondly, on like for like volumes, so with everything you said on net new and pricing, it implies something like plus 1.6% in Q1. Would it be fair to say that the comparables were particularly high in this Q1? I remember the last year, amazing sports and leisure, amazing Christmas parties, more returns at the office. Would it be fair to say that it's a little bit easier to grow further on like for like volumes for the remainder of the year?

Then just the last one on rest of the world, so many exits there. If we take the opposite approach, could you tell us what's in there? It's only 5% is going to be folded into Europe, but just so we know which are the big drivers there. Turkey is still there, Australia's still there? Are those the only material things to think about?

Dominic Blakemore

Jaafar, good morning, and thank you for your questions. First of all, I take a little bit of exception on your first question, if I may. I don't really think there's a slowing in net new business, nor is there a meaningful acceleration. We printed around 4.5%. I think that's a very strong number and absolutely consistent with our performance of the last three years or so. There isn't a hockey stick in our net new business performance in any way, shape or form.

I think what you see, though, when we obsessed around quarters, the big accounts can make a small difference to the numbers, so we much prefer to look at the trends over halves and full years, and that's where we see ourselves being comfortably within the 4% to 5% range. Of course, our ambition is to continuously work towards improving that. We've got super pipelines. We've got a great number in new signings, so we're very excited about what we can do. It certainly isn't about any slowdown whatsoever.

Just in terms of the volume point, again, just remind everyone that we had a benefit of return to office over a number of periods. Inevitably, that is lessening a little bit. I think I'd just remind ourselves, volume is at 1.5%, and above that is materially different from anything we experienced before the pandemic, and then in the history of the business, and I think we're starting to normalise more and more at these sorts of levels, which we think is really exciting.

There'll always be calendar differences between quarters and event differences between quarters, and we've seen a bit of that, but we feel really good about where we are on volumes.

Petros Parras

On rest of the world, Jaafar, just to remind you, we have fully exited LatAm. We have exited some other small markets in the rest of the world, Kazakhstan, Angola, et cetera, et cetera. Practically, this is behind our three core markets in the rest of the world, which are Australia, India and Japan, which is the core markets we have, we're focussing on, to drive sustainable growth. You do see a better quality portfolio after the exits we have executed, and you can see this in the print.

Jaafar Mestari - BNP Paribas

Thank you, and on the first question, just to clarify, I absolutely didn't mean net new business as a whole is slowing down. My question was on some accounts that take a longer time to ramp up, and so a slow ramp up of some of the wins. I think you alluded to that to some large accounts take more time to mobilise.

Dominic Blakemore

No, it specifically isn't about slow ramp up of accounts. It's the timing of the actual opening of those accounts, and it can differ from our expectations, and it can be lumpy within quarters. For example, if we win a large sports and leisure account - we operated the Melbourne Tennis Open - that would be a big hit of new business in one quarter, for example.

Jaafar Mestari - BNP Paribas

Clear, and once they're there, they're fully ramped up.

Dominic Blakemore

Exactly.

Jaafar Mestari - BNP Paribas

Thank you. Thank you very much.

Vicki Stern - Barclays

Yes, morning. Just wanted to follow up on the volume question, firstly, the 1.5% or so currently, it sounds like most of that return to office trend faded now, but just remind us of the key elements driving such a high level of volume growth versus what you saw previously. Is it still the key piece of that being the price discrepancy versus the High Streets, [digital]. Just keen to understand the levers, and with that, obviously then the confidence that that can sustain going forward.

Second one was just on the margin phasing between H1 and H2. I think previously you weren't calling out much of a shape in terms of margin this year, so just keen to understand if that's still the case.

Then, just related to the margin opportunity and the top line, on automation, I've seen you're using the [HIFA] machine as one example. I'm sure there are plenty of other automation devices being used, and some of them look to have the potential to be pretty huge in terms of cost and time-saving opportunity. So just talk a little bit around that and the opportunity you see there. Thanks.

Dominic Blakemore

Thank you, Vicki. Just on volume, yes, I think it's fair to say in the private sector we've probably largely seen the significant bounce from the return to office, though we continue to at the margin expect a little bit more positivity given the narrative that we're hearing from many clients at the moment.

But separately, look, I think you're absolutely right. I think the value gap to the High Street is very significant. I think that's driving [unclear] [fall] and per capita spend on our sites, and we think that's exciting. We've got to continue to work to maintain that advantage and that right, as it were. We also think digital is driving different behaviour, and we see very strong consumer behaviour continuing in the sports and leisure sector as well.

I think net-net on this one, we'd hoped to see something positive as a result of the changes that were implemented through and beyond COVID, and I think we're seeing that. We'd like to believe that volume now becomes a permanent contributor positively to our business model as we go forward. I think we need to continue to prove that to ourselves, but we're working very hard on it, and we see no reason why that shouldn't be the case as we go forward.

Petros Parras

Good morning, Vicki. On margin, I think this is consistent with our guidance, on enhancing underlying profit for the year. I think what you expect from us is to see margin progress in the first half versus prior year. You expect to see from us margin progress in the second half versus prior year and a nice progression within the year.

When it goes down to tech - sorry, you asked about the margin opportunity in the tech. So maybe the first thing just to remind us is, the opportunity we have to grow the business and how this balances with margin expansion over time, and we talked a lot about this, on how we're harnessing the elevated growth. We're very pleased with this. Dominic spoke about the technology we have implemented in our business.

I think what we're realising now beyond the client and consumer investments we have made, and we see great participation, this captive audience, we're realising a very good opportunity for us where it goes to our operations, where it goes to unit managers, how we enable our teams to do their job more efficiently, faster, so we can get better commercial outcomes. You will see some of this for us in the future.

Dominic Blakemore

Just to build on that, Vicki, a couple of thoughts. On the consumer side, we've recently opened the Intuit Arena at the LA Clippers, which is a totally frictionless consumer experience from entry to leaving the stadia. That's technology that obviously the client introduced but we worked alongside them, and there's learnings and experience there for us in terms of how we can deploy that across our wider estate.

So we see huge opportunity over time, broadly, to take those learnings and roll out on a very adapted basis, but appropriately for a number of sites within our account. Then I think as Petros rightly said, the AI can improve our back office operations. In terms of automation, there's opportunity in our central kitchens and so forth. So look, I think there's a lot to go after here, and I think it will continue to yield marginal gains for us as we go forward.

Vicki Stern - Barclays

Great, thanks very much.

[End]