Company: Compass Group PLC

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Operator: Hello and welcome to the Compass Group third quarter trading update call. Throughout the call all participants will be in listen only mode and afterwards, there will be an opportunity for question and answer session. Just to remind you, this conference call is being recorded. Today I am pleased to present, Mr. Dominique Blakemore, CEO and Mr. Johnny Thompson, Group Finance Director. Please go ahead with your meeting.

Dominic Blakemore: Good morning ladies and gentlemen. Thank you all for dialling in. With me this morning, I've asked group Finance Director, Johnny Thompson. I'm sure you've all read the statement, so I'll give you a brief overview of our performance and outlook, before opening the call to questions. Compass continues to trade well and our four-year expectations are unchanged. Organic revenue grew 5.7% in the third quarter, well 5.1% if we exclude the impact of Easter. Performance was driven by strong net new business in North America, and acceleration in Europe and good progress in the rest of the world. We continue to generate efficiencies across the group, which resulted in margin improvement in the third quarter. And we remain on track to deliver modest margin improvement for the full year. Looking at each region in turn, performance in North America continues to be strong with organic revenue up by 7%, or 6.6% excluding the effects of Easter. We saw particularly strong growth in business and industry, vending and healthcare, which is partly offset by the impact of timing of certain sports and leisure events.

These will benefit in Q4 along with the mobilisation of some good contract wins in education. Year to date margins were stable. Organic revenue in Europe, grew by 3.2% in the quarter, or 2% excluding Easter, driven by an acceleration of net new business in the UK. Although the benefits of the cost actions taken to offset above average inflation in the UK are coming through and

benefiting margins, they are were offset by a more challenging volume and cost environment in the UK.

In the rest of world, organic revenue increased by 3.1% or 2.7% excluding Easter. Growth was driven by strong performances in Turkey, India, China and have Spanish speaking

Latin-American businesses. Better than expected efficiencies and improved overhead leveraging growing markets, resulted in strong margin improvements in the quarter. A quick update on currency. If current spot rates continue for the remainder of the year, foreign exchange translation would negatively impact full year 2017 revenue by around 984 million Pounds. An operating profit by 77 million. In summary, Compass continues to have a good year.

Performance in North America is strong. Europe is accelerating as expected and the rest of world is progressing well. Better than planned margin improvements in the rest of world, is offsetting a more difficult volume and cost environment in Europe.

As a result, our full year expectations are unchanged. With organic growth above the middle of our 4% to 6% range, and modest margin progression. In the longer term, we remain excited about the significant structural growth opportunities globally. The potential for further revenue and margin improvements along with continued returns to shareholders. Thank you and now we'd happy to take your questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal. Thank you, we will take our first question today from Jamie Rollo of Morgan Stanley. Please go ahead Sir, your line is open.

Jamie Rollo: Hi there, morning everyone. A few questions please. First, could you elaborate a bit more on what's happened in the UK, particularly the comment on the recent volumes deteriorating. So what's changing? Is that a market issue? Is that an economy issue? And [inaudible] Compass sort of dealt very well with unforeseen events. But it looks like this is perhaps a tougher environment, so what's happening please? And then the other question was, on the rest of world margin performance, where Q3 looks very good up around a 100 basis points. I'm just wondering how sort of sustainable that is, particularly if we look at margin progressions after 2019? Thank you.

Dominic Blakemore: All right, thank you Jamie, and I'll hand this over to Johnny.

Johnny Thompson: Well, I think the first thing I would say Jamie, is that we're pleased with the actions we have taken and we discussed in, at the half year and we're definitely seeing the benefits - in UK I'm talking now, and we're definitely seeing the benefits of those actions coming through. However, as Dominic said earlier, we are seeing a more challenging trading environment in the UK than we expected. Perhaps the cost inflation continues to be higher than we had anticipated, but I think more importantly, we are seeing our like for like volumes coming off and as you know, the drop through on volume through our profit level and margins is very significant.

So what that means of course as you point out correctly, is that we're having to work hard and therefore we're still confident that the UK margin will come through. Perhaps a fraction later than we anticipated at half one, but it will come through and therefore where I think you'll see is quarter four, European margins much stronger, perhaps even into positive and therefore a nice carry into next year. But it's definitely a tougher environment in the UK.

In terms of the rest of the world, we're really pleased about the margin progress. I think I've highlighted this over the last few reporting periods. We obviously did the restructuring, but through the commodity cycle we haven't been standing still, we've been working hard on pricing and productivity to make sure that our margins continue to face into the commodity cycle. As that

cycle starts to ease of course, we then see the benefits of that coming through. On top of that, as Dominic mentioned earlier, we do have the benefit of leverage as some of those businesses now come back into growth. Looking out further on margins and rest of world, of course you would expect me to say this kind of margins aren't necessarily sustainable. We do have the benefit in these quarters of the construction project in Australia, which has taken longer to flow into production than we expected and therefore we're having higher than expected margins than we anticipated. That will roll off and therefore our carry on rest of world margins will be quite at this level.

Dominic Blakemore: Jamie, I'd just add to that a couple of points. I mean firstly, we're really pleased with the growth in the UK. The growth in the UK in the third quarter and it's accelerated and we anticipate that accelerate into the fourth quarter and next year. So I think that's very important. I think secondly, it shouldn't be a surprise that volumes are slightly under pressure. We are seeing it on the High Street and we are taking actions and monitoring that as we go. And finally, I think it's really important that we manage our total portfolio of businesses and therefore we're seeing the strong performance in the rest of the world, allowing us to offset that in the UK. And as we look forward, as we said this morning, we continue to expect margin progression as we go ahead.

Jamey Rollo: So the UK volume issue is really a consumer sort of marketplace issue, there's nothing specific of that contract catering or Compass?

Dominic Blakemore: We don't think so. I mean we're obviously tracking it and it's - we're seeing those negative volumes slight accelerate in the third quarter. I think we are seeing it on the High Street, perhaps part of that is price related. I think part is consumer confidence, and perhaps there's a little bit of business confidence in there as well at the moment. So we're just being careful as we work through this environment. But certainly not Compass or contract catering related.

Jamie Rollo: Okay and on 2019 margins for Europe, if this year's guidance move - had moved from

minus 15 to minus 40, but the UK is on track, just a bit slower to get their savings through, should

next year be up 25 or so?

Dominic Blakemore: No. This year, just to be clear, we're moving the guidance for Europe as a whole

to minus 50 on Europe, as I said a bit earlier, we will see some progression in quarter four, but I

think once you get into 2019, you should expect us to get back to what we would typically see from

a European model, which would be modest, say five-ish bits of margin improvement in Europe.

Jamie Rollo:

Okay thank you very much.

Dominic Blakemore:

Thanks Jamie.

Operator:

Thank you. We take our next question from Lena Thakker of HSBC. Please go ahead.

Lena Thakker: Morning, thanks. I think I've got three questions as well. So firstly, just in terms of the

sports and leisure impact in North America, I wonder if you could quantify that for us for the quarter.

Secondly, sorry to sort of to go back to the UK like for like volumes again, but just slightly baffled

about that. Is it got something to do with the warm weather or are you sort of seeing any structural

changes with people working from home more?

Or anything to do with the football - I'm just trying to sort of - High Street seems like a sort of a set

structural issue that's happening, so I'm just trying to understand better why those volumes would

have fallen. And then finally, excuse me, just in terms of cost inflation and pushing that through in

your contract, can you sort of remind us as to how the mechanics work and why in some cases it

seems to be quite difficult to pass through either staff or food cost inflation in those contracts?

Thank you.

Dominic Blakemore: Sure, let me take the first couple of questions and then I'll pass onto Johnny on cost inflation. I mean firstly, we're not going to quantify the impact of the sports and leisure events timing. There are a couple of significant impact, the major league baseball season is starting in quarter four this year, whereas it started in quarter three and I think there's a major motor racing event in Las Vegas which again falls into quarter four, rather than quarter three. So I think we're very clear that there is cause and effect there. I think more important, we anticipate that North America's growth rates on a full year basis will accelerate from the 7.2% we're seeing today, possibly by a further 20 basis points or so.

That implies a run rate in the fourth quarter that will be towards 8%, which I think is very exciting. Driven not least by the timing of sports and leisure, but also some great wins in the education sector, which will mobilise in the fourth quarter. So I think that's really important and we're very excited. And I don't think we should get hung up on the timing of sports and leisure events, because they can impact quarters with reasonably small numbers. So I think that trend into the fourth quarter and beyond is what's important.

Secondly on the UK like for like, I slightly disagree with you on the point about the High Street impact. I think the High Street impact is a lot about the cost inflation that we are seeing at the moment as well as some consumer trends and I do think that that is perhaps also playing into our sort of captive catering environment. Except for you maybe - you may have a point on weather runs and World Cup, but if that's the case then perhaps things will get a touch better. But I think we're more focused on what we think is an underlying trend is slightly lower spend and slightly lower foot fall into our restaurants.

Johnny Thompson: Yeah and I'll just pick up on the cost inflation and pass through point contracts.

That means, the first thing I'd say is that we focus, first and foremost on mitigating cost inflation through our own actions and cost and that's a very important part of our model before we get to

pricing to ensure our clients the best value proposition. And we've always gone ahead of that and done that quickly in the past and we expect to do so in this case as well.

Coming back specifically to your question, I mean we have in general three different cost type - three contract types. They would be cost plus, P&L and fixed price. In the first two, where we have some negotiations with clients to do, in general we have much more sovereignty of pricing and therefore it's easier for us to pass it on. In the last case, the fixed price case, we have much more negotiation to do with our clients and therefore it can take just slightly longer to do and that would I would say, would be particularly the case in the UK and would be particularly the case in some of our support services contracts, which are much more labour orientated and do take longer to negotiate.

Lena Thakker: Okay, that's very helpful. Thank you.

Operator: Thank you. We take our next question from Kian Marden of Jefferies. Please go ahead, your line is open.

Kian Marden: Morning. Just touching on Johnny's sort of last comment there. So could you maybe elaborate on the relative sort of trading position in the UK support services business, thus is food. So I guess have you seen a profit shortfall or chain shortfall in some of the non-core businesses that you're looking to divest?

Dominic Blakemore: Yeah, I mean those non-core businesses are what, just around 10% of our total UK revenues. the trading has been a touch more difficult as Johnny outlined. Yes, the cost inflation environment is more difficult to manage in that particular parts of our business. I'd say it's probably slightly below our expectations for the year and as we said before, we've got ongoing processes to look at how we might exit or sell those businesses.

Kian Marden: And I presume if you had any comments to make regarding disposal process, then you would have made them in today's statement?

Dominic Blakemore: Yes, I mean as we've said at the half year, we are evaluating those businesses across the group that we do want to exit or sell. We started on that process. There's nothing to report in terms of our quarter three, although since quarter three, we have sold a small business in North America, so it started. We would expect by November to be able to announce a few more, although of course that will depend on the circumstances of each of the deals that we're doing, but I would hope that we can. And then the rest will flow through into 2019, but it's very much on track with what we expect.

Kian Marden: Fantastic, thanks very much.

Operator: Thank you. We now move to David Holmes of Bank of America and Merill Lynch. Please go-ahead Sir.

David Holmes: Hi morning guys. I just wanted to touch on North American organic growth. You seem really confident on the acceleration into Q4, as the commentary on the pipeline's been very positive.

So how do you think about that momentum carrying through into 2019?

Dominic Blakemore: Yeah I mean you're right, we are participating a strong fourth quarter, obviously a little bit of that is timing as we've said earlier today. What we will see though is, we're going to see some good growth coming through in the higher-ed sector in particular but would also see the run-off of some of the big healthcare wins, that was a feature of our growth during the course of 2018. So I think in around, we continue to look at momentum in the US sort of broadly in-line with where we've been this year, so sort of towards the 7% level and that remains our expectations again for next year.

David Holmes: Cool. Thank you very much.

Operator: Thank you. We now move to Richard Clark of Bernstein. Please go ahead, your line is

open.

Richard Clark: Yeah, good morning. Two questions from me. Just - you've retained your guidance on

the modest margin progression for the full year, and - but you've clearly taken down the Europe

guidance at the same time. Has anything across the group softened a little bit and is that being

offset by currency purse? If you hadn't had the dollar boost, would you able to stick with your

modest margins progression? And then the second question, is just is there any update on the new

CFO and the process of sort of looking for a new CFO at this point?

Dominic Blakemore: So I mean firstly, let's be absolutely clear. We are maintaining margin guidance

for the year as we have done throughout the year. I hope we have made it clear today that yes,

Europe is a bit tougher, but we're doing better in the rest of world. So the portfolio isn't around[?]

offset that. It isn't about FX as we obviously, we change our guidance's results of the weakening

of Sterling against the numbers we've previously given you. So that flows in addition to the

guidance we've given. So hopefully that sort of clarifies the point. But absolutely we are

maintaining our margin guidance. We have made progress in the third quarter. We have some

modest margin progression in the third quarter and therefore we've improved in the year-to-date

and we expect to make a few basis points of marching progression on a full year basis.

With regards to the CFO, we have commenced that search, it is underway. And obviously we will

update you as we go forward should there be any news. Obviously, we have - Johnny is alongside

me, he's here with me until the end of this calendar year and remains totally committed.

Richard Clark: Thanks very much.

Operator: Hallo Mr. Barret, your line is open.

Tim Barrett: Oh sorry, I didn't hear the entry. I had two questions please on margin. Just a big picture thing, looking at the maps, I was estimating that to get to slight growth for the full year, you need about 20 basis points positive in Q4, does that sound about right? And will that all come from Europe? And then the second question was just, if you could give an update to guidance on rest of the world margin in the same way that you did to the question on Europe earlier? Thanks very much.

Dominic Blakemore: Yeah, your first question, you're pretty much spot on, on the 20 basis points. However, it's' not all coming from Europe. As I said earlier, we're anticipating and positive about Europe's improvements in the fourth quarter on margin, but we're also carrying a very strong margin performance from rest of the world into quarter four too, so we feel really good about the quarter four performance, and that's why we're confirming our full year guidance. In terms of rest of the world, as I said earlier, I mean we've got a 100 basis points-ish in quarter three and quarter four, that's not going to be sustainable into next year. There are some - your underlying improvements which will continue, which I mentioned earlier on the call, however we are anticipating that a big construction project in Australia, will move into production either quarter four or quarter one next year, and that will significantly bring rest of world's margins down.

Tim Barrett: Okay, thank you.

Operator: Thank you. We now move to Tim Ramskill of Credit Suisse. Please go ahead. Hello Mr. Tim Ramskill? Your line is open Sir.

Tim Ramskill: Sorry I was - apologies, I was on mute. Three questions from me please. Maybe Johnny if you just go back to that point about the contract in Australia in terms of kind of maybe just a bit of help in terms of how much of a margin track that might have, but also what that might help to

contribute in terms of rest of world growth next year? Second question was around the sort of the plan say 5% exits, which obviously you talked about at H1. And again, a number of investors have been asking kind of what the financial implication of that might be? Presumably, I know you've kind of said these are sort of decent margin businesses, but they're obviously sort of in sub-scale territories or businesses where margins aren't potentially going to get any better, so how would you expect that 5% exit process, net of some disposal proceeds as well, to sort of flow through in terms of an earnings impact? And then the final question is - maybe if you could just take the opportunity to give us your thoughts on the outlook for Europe? Sort of more medium term given - it has been a little bit volatile over the course of the last few years. I know it's tricky to read, but what's your current thinking on the medium term prospects?

Dominic Blakemore: I just - Tim let me take the second and third question. We'll come back to the question on the impact of the contract in Australia. So just with regard to the exit program, I mean yes, we talked about it being up to 5%. I think that remains broadly the case. We have got as we have said, a number of ongoing processes, so you should expect us to be able to provide a fuller update when we come to the year end. We said that they are broadly in the round margin neutral to the group. There is obviously a range of operating margins of those particular countries or subsectors, and so depending on the timing, you will see the impact of those.

And I think it's clearly fair to say, that we're unlikely to achieve a Compass multiple on those businesses, but we will update you as we go on the proceeds received for the businesses. I think what's really important in all of this for me, is that it's quite a long tale. It is distractive of management and I think that this will really allow us to focus on our core businesses where we see better, medium and long term growth prospects. Better, medium and long term margin opportunities and it will allow us to deploy the best practice processes more consistently across that smaller core of markets. So I think that's where the benefit absolutely comes in my eyes. But we will give you a fuller update when we get to November on that.

Secondly from me on Europe and the medium term prospects, I think things are looking, within continent of Europe, so excluding the UK from a growth perspective, slightly better for us. So we have had a dull year this year. We are expecting a better fourth quarter. And as it looks today, our retention rates in a number of the major European markets are strengthening. We continue to win good levels of new business, so I think we're hopeful that we will see an improved performance in the continent of Europe, as we look forward into next year and continue the efforts we've talked about in terms of building out sub-sector brands in creating the scale that allows us to be more efficient in the European markets. So I think that's something that we will hopefully be talking to you about as we move forwards, and then finally on the OR contract in Australia, Johnny?

Johnny Thompson: Yeah, I think the first thing I'd say Tim is that, we're really excited about the way the rest of the world business is developing. We've obviously had two or three years of quite a tough environment and we've been battling that hard and we're very pleased to see some of the fruits of that labour coming through. And as we go forward, that will come through stronger in the top line. And we'll continue to have margin improvements. As I said earlier, it won't be quite at these levels. First of all, because of course we'll be lettering some of the benefits that we'll be taking this year from the restructuring, but as you pointed out, also because of the move from construction to production in Australia, I would say that as guidance for next year to give you a steer, our rest of world margins should improve by around 20 basis points, which again we feel very positive about.

Tim Ramskill: Excellent, thank you.

Operator: Thank you. We will now take our final question, Jarrod Castle of Ubs. Please go ahead.

Jarrod Castle: Thank you, good morning gentlemen. Just something which is kind of topical at the moment in the press, but going into 2019, it seems like the government's potentially making contingency plans for I guess a hard Brexit and I'm very interested just to get your thoughts on

obviously a core-part of your business is supply chain management and just getting an idea of how much of the UK input is from kind of local producers versus Europeans and how you're thinking about that? Secondly, I don't know if you have or if you can just give any further colour on how your CAPEX for sales is progressing? Is it on track versus your guidance at 1H? And then just lastly, and sorry, I missed the first part of the call, so I don't know if someone's asked this, but just in terms of your energy and commodities business is, is that coming back just given the sustained relatively high oil price? Thanks.

Dominic Blakemore: So Jarrod let me tackle the first question and then I'll hand over to Johnny for the CAPEX and commodities question. Firstly, with regard to - you're absolutely right, the media coverage around sort of contingency plans for food and beverage management by the government, I mean it's obviously something that we've been thinking about and looking out for a while. Our supply mix is broadly sort of 60/65% UK sourced, with 35 to 40% either Europe or other and that would sort of direct and indirect supply. We're obviously looking at what different deal scenarios could mean and therefore the contingency planning we need in place to address that. So some of that will be about understanding how we can swap product. How we can source UK product. How we can build inventory where necessary and also where we can reach and agree longer term supply deals. So there's a combination of actions going on. The planning is in hand and I guess we would just have to work with whatever outcome of the negotiations emerges. But I think rest assured, we are certainly in the planning and contingency mode.

Johnny Thompson: And then just on the CAPEX, I would anticipate that our CAPEX this year would be at the top end of the range that we discussed at the half year, so roundabout 3.5%. I mean first of all, of course you know about the Dodger's investment that we made earlier in the year and that we talked about, but as Dominic also mentioned, we've had some really exciting wins in the education sector in North America, with a little bit of CAPEX in quarter four too. So we should be – we're there or thereabout at the top end of the guidance on CAPEX. Actually, we're a little beyond that. We still stick to that guidance of up to 3.5%.

Probably a fair assumption in the absence of the Dodgers, would be somewhere between three and three and half into next year. Just on your commodities question, I mean year-to-date our commodities business has declined by about 2%, which is actually a little better than we'd expected. As we said earlier, the roll-off of the construction process in Australia, has just taken a little longer than we expected. So as we look into next year, that will roll-off and will have an impact on how quickly our business gets back into growth. However, in the medium term we'd expect to be laughing and therefore that business to come into growth, but what we're not seeing necessarily, is a significant amount of capital reinvestment form our clients and therefore I would expect that growth to continue modest. We still have a great business and I guess having come through this, is still - it's now a much smaller part of the group as well. They're around 5%, but it will come into growth in the latter parts of 2018/19.

Jarrod Castle: Okay, thanks very much.

Operator: Thank you ladies and gentlemen, that will conclude today's conference call. On behalf of the Compass Group, we'd like to thank you for your participation. You may now disconnect.