Half-year results announcement for the six months ended 31 March 2023

	Underlying[1] results			Statutory results		
	HY 2023	HY 2022	Change	**HY 2023**	HY 2022	Change
Revenue	**£15.8bn**	£12.6bn[2]	24.7%[3]	**£15.7bn**	£11.5bn	36.2%
Operating profit	**£1,050m**	£744m[2]	41.1%[2]	**£878m**	£638m	37.6%
Operating margin	**6.6%**	5.8%	80bps	**5.6%**	5.5%	10bps
Earnings per share	**42.7p**	29.9p[2]	42.8%[2]	**36.4p**	26.7p	36.3%
Operating cash flow	**£871m**	£557m	56.4%	**£944m**	£663m	42.4%
Free cash flow	**£590m**	£360m	63.9%			
Interim dividend per share	**15.0p**	9.4p	59.6%	**15.0p**	9.4p	59.6%

Strong half-year results, raising FY 2023 guidance and announcing a further share buyback of up to £750m

Half-year highlights

- Strong organic revenue growth of 25% with excellent net new business of 5.2%
  - First-time outsourcing trends continue, accounting for c.45% of new business wins
  - Balanced growth across all regions with very strong performance in Europe
  - Maintaining strong client retention rate
- Operating profit over £1bn and operating profit margin of 6.6%, up 80bps
- Strong cash generation, net debt to EBITDA reduced to 1.1x
- Further share buyback of up to £750m to be completed this calendar year

Strategic priorities for growth – capturing the outsourcing market opportunities

- Sustaining the outperformance in North America
- Building a track record of growth in Europe and Rest of World
- Exited six tail countries as we continue to reshape our portfolio to focus on growth opportunities in attractive markets

Raising FY 2023 outlook

- Operating profit growth[2] towards 30% (from above 20%), delivered through:
  - Organic revenue growth of around 18% (from around 15%)
  - Operating margin in the range of 6.7% to 6.8% (from above 6.5%)

Change in reporting currency

- Group to report in US dollars from 1 October 2023 to align with our business exposure and reduce foreign exchange volatility on earnings

Statutory results

- Statutory revenue increased by 36.2% reflecting trading performance and favourable exchange translation
- Statutory operating profit, which includes charges from reshaping our portfolio and acquisition-related charges both of which are excluded from underlying operating profit, increased by 37.6%, with statutory operating margin up 10bps

1. Reconciliation of statutory to underlying results can be found in notes 2 (segmental analysis) and 11 (non-GAAP measures) to the consolidated financial statements.
2. Measured on a constant-currency basis.
3. Organic revenue change.

Business review

Dominic Blakemore, Group Chief Executive, said:

"The Group performed strongly in the first half of the year, benefiting from balanced growth across all regions. Net new business continued to be excellent, and significantly higher than our historical rate. We are particularly pleased with the step change in our Europe performance which has benefited from growth initiatives as well as favourable outsourcing conditions.

Despite pockets of macroeconomic weakness, the outsourcing market remains very attractive. We believe that many of the complexities that drive outsourcing, such as increased regulation, changing client and consumer expectations, and inflation, are here to stay. With our strong cash generation, we continue to invest in our business and evolve our operating model, further enhancing our scale and competitive advantage.

Following our strong first-half performance, we now expect operating profit growth towards 30% on a constant-currency basis, to be delivered through organic revenue growth of around 18% and an underlying operating margin in the range of 6.7% to 6.8%. The strength of our balance sheet, along with our confidence in the prospects for the business, give us the platform for further returns to shareholders. In addition to our ordinary dividend, we are announcing a further share buyback of up to £750m in 2023, taking the total programme announced since May 2022 to £1.5bn.

Longer term, we expect the growth opportunities in the market to sustain mid-to-high single-digit organic growth and a path back to our historical margin, leading to profit growth above revenue growth. With our established value creation model intact, we will continue rewarding shareholders with compounding returns over the long term."

Results presentation today

A recording of the results presentation for investors and analysts will be available on the Company's website today, Wednesday 10 May 2023, at 7.00am.

There will be a live **Q&A session at 9.00am**, accessible via the Company's website, www.compass-group.com, and you will be able to participate by dialing:

UK Toll Number:	+44 (0) 33 0551 0200
UK Toll-Free Number:	0808 109 0700
US Toll Number:	+1 786 697 3501
US Toll-Free Number:	+1 866 580 3963
Participant PIN Code:	Compass

Please connect to the call at least 10 minutes prior to the start time.

2023 financial calendar

Ex-dividend date for 2023 interim dividend	8 June
Record date for 2023 interim dividend	9 June
Last day for DRIP elections	6 July
Q3 Trading Update	25 July
2023 interim dividend date for payment	27 July
Full-year results	20 November

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Business review (continued)

Basis of preparation

Throughout the Half Year Results Announcement, and consistent with prior periods, underlying and other alternative performance measures are used to describe the Group's performance alongside statutory measures.

The Executive Committee manages and assesses the performance of the Group using various underlying and other Alternative Performance Measures (APMs). These measures are not recognised under International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP) and may not be directly comparable with APMs used by other companies. Underlying measures reflect ongoing trading and, therefore, facilitate meaningful year-on-year comparison. Management believes that the Group's underlying and alternative performance measures, together with the results prepared in accordance with IFRS, provide comprehensive analysis of the Group's results. Certain of these measures are financial Key Performance Indicators (KPIs) which measure progress against our strategy.

The Group's APMs are defined in note 11 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 11 to the consolidated financial statements.

Group performance

The Group continues to grow strongly, capitalising on the significant structural opportunities in the outsourcing market. Organic revenue growth was 25%[1], with double-digit increases across all sectors and regions. Underlying operating margin increased by 80bps to 6.6%[1] and underlying operating profit increased to £1,050m[1] (2022: £673m).

We are continuing to invest in exciting growth opportunities both through capital expenditure and M&A. Whilst capital expenditure was only 2.3%[1] of underlying revenue in the first half, lower than historical levels due to timing delays in some investments, we expect capital expenditure to be in the range of 3.0% to 3.5% of underlying revenue for the full year. Net M&A expenditure was £210m in the period, which was largely spent on a number of bolt-on acquisitions mainly in the US and UK.

Cash flow performance remains strong, with underlying operating cash flow of £871m[1] (2022: £557m) and underlying free cash flow of £590m[1] (2022: £360m) helping our leverage (net debt to EBITDA) to reduce further to 1.1x[1], including £323m spent on share buybacks during the period.

Revenue

Organic growth of 25%[1] reflects net new business growth above historical levels at over 5%, continuing our post-pandemic recovery, with like-for-like volume growth of approximately 13%, and pricing benefits of around 7%. Net new business growth was broad based, with all the Group's regions growing in the range of 5% to 6%.

There were double-digit increases in organic revenue across all sectors in the period and performance was particularly strong in Business & Industry, as employees continued to return to the office, and Sports & Leisure, where participation rates improved.

On a statutory basis, revenue was £15,658m (2022: £11,499m), an increase of 36.2%, reflecting the net new business growth, post-pandemic volume recovery and pricing benefits, together with favourable exchange translation.

Profit

Underlying operating profit increased by 41%[1] on a constant-currency basis, to £1,050m[1], and our underlying operating margin was 6.6%[1] (2022: 5.8%). The margin improvement reflects the benefits of operating leverage as volumes returned post-pandemic, with operational efficiencies and pricing actions to manage inflationary pressures, and is despite mobilisation costs associated with higher new business growth.

On a statutory basis, operating profit was £878m (2022: £638m), an increase of 37.6%, mainly reflecting the higher revenue and margin improvements, together with favourable exchange translation.

Statutory profit before tax of £831m (2022: £632m) includes net charges of £153m (2022: £4m) which are excluded from underlying profit before tax. During the half year, we incurred a net charge of £70m in relation to our ongoing strategic portfolio review of non-core activities to allow the Group to focus its resources on our core operations. The net charge comprises the exit from six countries, including Central and Eastern Europe (Czech Republic, Hungary, Slovakia and Romania), and the sale of a business, site closures, and contract renegotiations and terminations in the UK. Acquisition-related charges totalled £61m (2022: £33m) and there was a one-off pension charge of £12m (2022: £nil) following a change in legislation in Turkey eliminating the minimum retirement age requirement for certain employees effective from March 2023.

1. Alternative Performance Measure (APM). The Group's APMs are defined in note 11 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 11 to the consolidated financial statements.

Business review (continued)

Capital allocation

Our capital allocation framework is clear and unchanged. Our priority is to invest in the business to fund growth opportunities, target a strong investment-grade credit rating with a leverage target of around 1x to 1.5x net debt to EBITDA and pay an ordinary dividend, with any surplus capital being returned to shareholders.

Growth investment consists of: (i) capital expenditure to support organic growth in both new business wins and retention of existing contracts; and (ii) bolt-on M&A opportunities that strengthen our capabilities and broaden our exposure. We have a proven track record of strong returns from our investment strategy evidenced by our historical returns on capital employed.

Shareholder returns

Our dividend policy is to pay out around 50% of underlying earnings through an interim and final dividend, with the interim dividend reflecting around one-third of the total annual dividend. The Board has approved an interim dividend of 15.0p per share to be payable in July 2023.

The £250m share buyback programme announced in November 2022 was completed in March 2023. Today, we have announced a further share buyback of up to £750m to be completed this calendar year, which takes the total buyback programme announced since May 2022 to £1.5bn.

Business review (continued)

Regional performance

North America – 67.4% of Group underlying revenue (2022: 65.9%)

	Underlying results[1]		Change[1]			Statutory results		Change
Regional financial summary	**2023**	2022	Reported rates	Constant currency	Organic	**2023**	2022	Reported rates
Revenue	**£10,652m**	£7,657m	39.1%	23.8%	23.2%	**£10,643m**	£7,650m	39.1%
Operating profit	**£832m**	£535m	55.5%	38.4%	38.0%	**£795m**	£509m	56.2%
Operating margin	**7.8%**	7.0%	80bps			**7.5%**	6.7%	80bps

1. Reconciliation of statutory to underlying results can be found in notes 2 (segmental analysis) and 11 (non-GAAP measures) to the consolidated financial statements.

Underlying

Organic revenue grew by 23.2%, with net new business growth of 5.1%.

All sectors performed strongly, with the highest growth in our Business & Industry and Sports & Leisure sectors, which benefited from elevated per capita spend and continued volume recovery from employees returning to the office and higher attendance levels at live events.

Our Education and Healthcare & Senior Living sectors also delivered strong organic revenue growth driven by net new business and like-for-like volume growth.

Margin increased by 80bps to 7.8% driven by operating leverage benefits as volumes increased, and a continued focus on operational efficiencies and pricing actions. Operating profit was £832m, which represents 38.4% growth on a constant-currency basis.

The region invested in several bolt-on acquisitions to strengthen our capabilities and broaden exposure within our existing sectors, including the acquisition of Parks Coffee, a provider of workplace refreshments in the US.

Statutory

Statutory revenue increased by 39.1% to £10,643m reflecting the continued recovery from the pandemic, net new business growth and favourable exchange translation. There is no significant difference between statutory and underlying revenue.

Statutory operating profit was £795m (2022: £509m), with the difference from underlying operating profit being acquisition-related charges of £37m (2022: £26m).

Business review (continued)

Europe – 22.5% of Group underlying revenue (2022: 23.8%)

	Underlying results[1]		Change[1]			Statutory results		Change
Regional financial summary	**2023**	2022	Reported rates	Constant currency	Organic	**2023**	2022	Reported rates
Revenue	**£3,549m**	£2,766m	28.3%	26.8%	28.2%	**£3,420m**	£2,647m	29.2%
Operating profit	**£197m**	£125m	57.6%	55.1%	57.3%	**£68m**	£118m	(42.4)%
Operating margin	**5.6%**	4.5%	110bps			**2.0%**	4.5%	(250)bps

1. Reconciliation of statutory to underlying results can be found in notes 2 (segmental analysis) and 11 (non-GAAP measures) to the consolidated financial statements.

Underlying

Organic revenue grew by 28.2% as our continued investment in people, brands and processes delivered net new business growth of 5.4% and a significant increase in like-for-like volumes due to lapping the impact of the pandemic in the prior period and appropriate levels of pricing. Our Business & Industry sector benefited from employees returning to the office and our Sports & Leisure sector benefited from sites fully re-opening.

Margin increased by 110bps to 5.6% as volumes recovered, and by 10bps on the second half of 2022, despite high mobilisation costs for new business. We continued to work closely with clients to manage heightened levels of inflation, both through operational efficiencies and appropriate pricing. Operating profit increased by 55.1% on a constant-currency basis to £197m.

The region invested in bolt-on acquisitions, most notably to drive additional procurement efficiencies and, as part of the Group's ongoing strategic portfolio review, sold four businesses in Central and Eastern Europe (Czech Republic, Hungary, Slovakia and Romania) in October 2022 to focus resources and investment on core operations.

Statutory

Statutory revenue increased by 29.2% to £3,420m, with the difference from underlying revenue being the presentation of the share of results of our joint ventures operating in the Middle East.

Statutory operating profit was £68m (2022: £118m), with the difference from underlying operating profit mainly reflecting charges related to the Group's ongoing strategic portfolio review of £99m (2022: £nil), including site closures and contract renegotiations and terminations in the UK, and a one-off pension charge of £12m (2022: £nil) following a change in legislation in Turkey eliminating the minimum retirement age requirement for certain employees effective from March 2023.

Business review (continued)

Rest of World – 10.1% of Group underlying revenue (2022: 10.3%)

	Underlying results[1]		Change[1]			Statutory results		Change
Regional financial summary	**2023**	2022	Reported rates	Constant currency	Organic	**2023**	2022	Reported rates
Revenue	**£1,595m**	£1,202m	32.7%	28.7%	27.9%	**£1,595m**	£1,202m	32.7%
Operating profit	**£71m**	£56m	26.8%	20.3%	20.7%	**£65m**	£54m	20.4%
Operating margin	**4.5%**	4.7%	(20)bps			**4.1%**	4.5%	(40)bps

1. Reconciliation of statutory to underlying results can be found in notes 2 (segmental analysis) and 11 (non-GAAP measures) to the consolidated financial statements.

Underlying

Growth in organic revenue of 27.9% reflects net new business above historical levels at 5.7%, together with double-digit like-for-like volume growth as we lapped the impact of localised lockdowns and border closures in the prior year, and good levels of pricing.

Organic revenue growth was strong across all sectors, with double-digit growth in our Business & Industry sector across most markets, notably in India as workplaces reopened, and our more defensive Defence, Offshore & Remote sector, especially in Australia and Chile where like-for-like volumes improved.

Operating profit increased by 20.3% on a constant-currency basis to £71m. Operating margin was 4.5%, with the slight reduction on the prior period reflecting the heightened levels of inflation and impact of labour shortages. We continue to work hard with our clients to mitigate these factors going forward.

Statutory

Statutory revenue increased by 32.7% to £1,595m. There is no difference between statutory and underlying revenue.

Statutory operating profit was £65m (2022: £54m), with the difference from underlying operating profit being acquisition-related charges of £6m (2022: £2m).

Business review (continued)

Strategy

Our strategic focus is on food, with targeted support services. The addressable food services market is estimated to be worth at least £250bn. There remains a significant structural growth opportunity from first-time outsourcing, as around half of the market is still self-operated. As the operating environment becomes increasingly challenging due to a combination of inflationary pressures, increased client demands and other additional complexities, we have a clear strategy to capture the acceleration in first-time outsourcing based on our focus, scale and expertise.

As the largest global player, our scale in procurement and focus on cost efficiencies give us competitive advantages that translate into greater value for clients and consumers. Our sectorised and sub-sectorised approach enables us to provide a tailored offer to meet changing client requirements. We are continuing to invest in our market-leading propositions in digital and ESG which are clear growth enablers in the food services market.

Our strategic focus on People, Performance and Purpose continues to underpin all that we do in our ambition to deliver value to all our stakeholders.

People

Our people are at the heart of who we are and what we do. We are focused on building an open culture in which our people can thrive, feeling safe and valued for who they are and what they bring to Compass.

In North America, our diversity, equity and inclusion (DE&I) vision is built on fostering a culture where all our associates feel seen, heard, valued and welcomed. Our DE&I programme and supplier diversity partnerships are igniting change in the communities we serve. For example, through our supplier diversity strategy, we advocate mentoring Minority and Women-owned Business Enterprises to create sustainable business opportunities for supplier inclusion. By fostering relationships with diverse suppliers, we are nurturing an inclusive business community and providing exciting variety for our clients and consumers.

Last year, Compass UK & Ireland launched ‘Our Social Promise’, a commitment to support one million people from less advantaged and under-represented backgrounds. The business set a target to be representative of society at all levels of the organisation, from a gender, ethnicity and socio-economic perspective, by 2030. As part of this commitment, the median gender pay gap has reduced, from 16.6% to 12.6%, lower than the UK national average, and ethnic median pay was 7.9% higher than the Compass UK & Ireland average reflecting a higher representation of ethnic minority colleagues in higher paid roles.

The launch of the Compass Group Foundation demonstrates our commitment to improve the lives of people through education and innovation by empowering them to play a key role in the future of food for their communities. The Foundation, which is a UK-registered charity, provides grants to non-profit organisations in countries where Compass Group operates such as Spain, India and Turkey which have already been awarded grants. Its priorities are to create inclusive job opportunities, empower local suppliers and to provide urgent support in the case of global emergencies.

Business review (continued)

Purpose

Our Planet Promise is Compass Group's global commitment to a sustainable future for all. It encompasses the Company's values as an ethical, sustainable and inclusive business, together with our ambition to positively impact the world. As well as being the right thing to do, this mission is also key to our growth aspirations as sustainability is a critical issue for many of Compass' clients.

We recognise that our chefs are the best ambassadors to champion our Planet Promise, using food to connect people and communities to one another and the environment. This year, we launched 'Chefs Creating Change', our very first Compass Group Global Culinary Forum. The forum is a global conversation focused on sustainability initiatives with the inaugural event focused on food waste reduction. The forum created an opportunity to hear from Compass chefs around the globe as they share their greatest food waste insights.

Our UK & Ireland business has the most ambitious climate goals across the Group, with a climate net zero target date of 2030 validated by the Science Based Targets initiative (SBTi). The business's first impact report was published this year, highlighting its progress with some standout achievements, most notably a 36% absolute reduction in emissions from animal proteins, which contributed to a 20% absolute reduction in Scope 3 food and drink emissions since 2019 (baseline year). Animal proteins are a key carbon hotspot across the Group and the positive outcome achieved in the UK & Ireland business provides great insights which will allow us to implement similar actions globally in support of our group-wide emissions reduction commitments.

Summary

Our results for the first half of the year were strong across all performance metrics. Organic revenue benefited from volume recovery, pricing and net new growth above our historical average. Operational complexities, persistent inflation, and evolving client and consumer requirements are continuing to drive our growth, with first-time outsourcing contributing c.45% of new business wins.

The balance of performance across the regions is particularly pleasing and reflects a significant step change in our Europe business which is benefiting from growth initiatives and consistency of best practice. All regions have significant, albeit different, growth potential and we have clear strategic priorities to capture these opportunities.

Despite some pockets of macroeconomic weakness, the food service market is large and very attractive with a long structural runway of potential. Increasing operating complexities and evolving client and consumer requirements are driving exciting growth opportunities which we believe are mostly structural. Our strategic priorities are focused on capitalising on these opportunities and driving accelerated financial performance.

Our strong cash generation and disciplined capital allocation framework underpin our robust balance sheet. Shareholders will benefit from the interim ordinary dividend of 15.0p, together with a further share buyback of up to £750m to be completed this calendar year.

Looking further ahead, we remain excited about the significant global structural growth opportunities, leading to revenue and profit growth above historical rates. With our established value creation model intact, we will continue rewarding shareholders with compounding returns over the long term.

Financial results

Group performance

	2023 £m	2022 £m	Change
Revenue			
Underlying – reported rates[1]	**15,796**	11,625	35.9%
Underlying – constant currency[1]	**15,796**	12,638	25.0%
Organic[1]	**15,769**	12,642	24.7%
Statutory	**15,658**	11,499	36.2%
Operating profit			
Underlying – reported rates[1]	**1,050**	673	56.0%
Underlying – constant currency[1]	**1,050**	744	41.1%
Organic[1]	**1,047**	742	41.1%
Statutory	**878**	638	37.6%
Operating margin			
Underlying – reported rates[1]	**6.6%**	5.8%	80bps
Basic earnings per share			
Underlying – reported rates[1]	**42.7p**	26.9p	58.7%
Underlying – constant currency[1]	**42.7p**	29.9p	42.8%
Statutory	**36.4p**	26.7p	36.3%
Free cash flow			
Underlying – reported rates[1]	**590**	360	63.9%
Dividend			
Interim dividend per ordinary share	**15.0p**	9.4p	59.6%

1. The Group's APMs are defined in note 11 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 11 to the consolidated financial statements.

Segmental performance

	Underlying revenue[1]		Change[1]		
	2023 £m	2022 £m	Reported rates	Constant currency	Organic
North America	**10,652**	7,657	39.1%	23.8%	23.2%
Europe	**3,549**	2,766	28.3%	26.8%	28.2%
Rest of World	**1,595**	1,202	32.7%	28.7%	27.9%
Total	**15,796**	11,625	35.9%	25.0%	24.7%

	Underlying operating profit[1]		Underlying operating margin[1]	
	2023 £m	2022 £m	**2023 £m**	2022 £m
North America	**832**	535	**7.8%**	7.0%
Europe	**197**	125	**5.6%**	4.5%
Rest of World	**71**	56	**4.5%**	4.7%
Central activities	**(50)**	(43)		
Total	**1,050**	673	**6.6%**	5.8%

1. The Group's APMs are defined in note 11 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 11 to the consolidated financial statements.

Financial results (continued)

Income statement

	2023			2022		
	Statutory £m	Adjustments £m	Underlying[1] £m	Statutory £m	Adjustments £m	Underlying[1] £m
Revenue	**15,658**	**138**	**15,796**	11,499	126	11,625
Operating profit	**878**	**172**	**1,050**	638	35	673
Net gain/(loss) on sale and closure of businesses	**29**	**(29)**	**-**	(6)	6	-
Finance costs	**(76)**	**10**	**(66)**	-	(37)	(37)
Profit before tax	**831**	**153**	**984**	632	4	636
Tax expense	**(189)**	**(42)**	**(231)**	(152)	(1)	(153)
Profit for the period	**642**	**111**	**753**	480	3	483
Non-controlling interests	**(4)**	**-**	**(4)**	(3)	-	(3)
Attributable profit	**638**	**111**	**749**	477	3	480
Average number of shares	**1,753m**	**-**	**1,753m**	1,784m	-	1,784m
Basic earnings per share	**36.4p**	**6.3p**	**42.7p**	26.7p	0.2p	26.9p
EBITDA			**1,470**			1,039

1. The Group's APMs are defined in note 11 (non-GAAP measures) and reconciled to GAAP measures in notes 2 (segmental analysis) and 11 to the consolidated financial statements.

Statutory income statement

Revenue

On a statutory basis, revenue was £15,658m (2022: £11,499m), an increase of 36.2%, reflecting the net new business growth, post-pandemic volume recovery and pricing benefits, together with favourable exchange translation.

Operating profit

On a statutory basis, operating profit was £878m (2022: £638m), an increase of 37.6%, mainly reflecting the higher revenue and margin improvements, together with favourable exchange translation. Statutory operating profit includes non-underlying item charges of £172m (2022: £35m), including acquisition-related charges of £61m (2022: £33m), charges related to the strategic portfolio review of £99m (2022: £nil) reflecting the impact of site closures and contract renegotiations and terminations in the UK, and a one-off pension charge of £12m (2022: £nil) following a change in legislation in Turkey eliminating the minimum retirement age requirement for certain employees effective from March 2023. A full list of non-underlying items is included in note 11 (non-GAAP measures).

Gains and losses on sale and closure of businesses

The Group has recognised a net gain of £29m on the sale and closure of businesses (2022: net loss of £6m), including exit costs of £2m (2022: £3m). As part of its ongoing strategic portfolio review, the Group exited six countries, including Central and Eastern Europe (Czech Republic, Hungary, Slovakia and Romania), and sold a business in the UK.

Finance costs

Finance costs increased to £76m (2022: £nil) mainly due to an increase in interest rates, the cost of the additional debt issued in September 2022 and a partial reversal of the fair value gains on derivatives held to minimise volatility in short-term underlying finance costs in the prior year.

Tax charge

Profit before tax was £831m (2022: £632m) giving rise to an income tax expense of £189m (2022: £152m), which is equivalent to an effective tax rate of 22.7% (2022: 24.1%). The decrease in rate primarily reflects the mix of profits by country being taxed at different rates, reassessment of risk in respect of prior year uncertain items and non-taxable divestments.

Earnings per share

Basic earnings per share was 36.4p (2022: 26.7p), an increase of 36.3%, reflecting the higher profit for the period.

Financial results (continued)

Underlying income statement

Revenue

Organic growth of 25% reflects net new business growth above historical levels at over 5%, continuing our post-pandemic recovery, with like-for-like volume growth of approximately 13%, and pricing benefits of around 7%. Net new business growth was broad based, with all the Group's regions growing in the range of 5% to 6%.

Operating profit

Underlying operating profit increased by 41% on a constant-currency basis, to £1,050m, and our underlying operating margin was 6.6% (2022: 5.8%). The margin improvement reflects the benefits of operating leverage as volumes returned post-pandemic, with operational efficiencies and pricing actions to manage inflationary pressures, and is despite mobilisation costs associated with higher new business growth.

Finance costs

Underlying finance costs increased to £66m (2022: £37m) mainly due to an increase in interest rates and the cost of the additional debt issued in September 2022.

Tax charge

On an underlying basis, the tax charge was £231m (2022: £153m), which is equivalent to an effective tax rate of 23.5% (2022: 24.0%). The decrease in rate primarily reflects the mix of profits by country being taxed at different rates and reassessment of risk in respect of prior year uncertain items. The tax environment continues to be uncertain, with more challenging tax authority audits and enquiries globally.

Earnings per share

On a constant-currency basis, underlying basic earnings per share increased by 43% to 42.7p (2022: 29.9p) reflecting the higher profit for the period.

Balance sheet

Liquidity

The Group finances its operations through cash generated by the business and borrowings from a number of sources, including banking institutions, the public and the private placement markets. The Group has developed long-term relationships with a number of financial counterparties with the balance sheet strength and credit quality to provide credit facilities as required.

The Group seeks to avoid a concentration of debt maturities in any one period to spread its refinancing risk. A €500m (£438m) Eurobond matured and was repaid in January 2023. The maturity profile of the Group's principal borrowings at 31 March 2023 shows that the average period to maturity is 3.8 years (30 September 2022: 3.9 years).

The Group's US Private Placement (USPP) notes contain leverage and interest cover covenants which are tested semi-annually at 31 March and 30 September. The leverage covenant test stipulates that consolidated net debt must be less than or equal to 3.5 times consolidated EBITDA. The interest cover covenant test stipulates that consolidated EBITDA must be more than or equal to 3 times consolidated net finance costs. Consolidated EBITDA and net finance costs are based on the preceding 12 months. The leverage and interest cover ratios were 1.0 times and 26.8 times, respectively, at 31 March 2023. Net debt, consolidated EBITDA and net finance costs are subject to certain accounting adjustments for the purposes of the covenant tests.

At 31 March 2023, the Group had access to £3,027m (30 September 2022: £3,732m) of liquidity, including £2,000m (30 September 2022: £2,000m) of undrawn bank facilities committed to August 2026 and £1,027m (30 September 2022: £1,732m) of cash, net of overdrafts. Our credit ratings remain strong investment grade – Standard & Poor's A/A-1 Long-term and Short-term (outlook Stable) and Moody's A3/P-2 Long-term and Short-term (outlook Positive).

Net debt

Net debt has increased by £215m to £3,205m (30 September 2022: £2,990m). The Group generated £565m of free cash flow, after investing £364m in capital expenditure, which was more than offset by £202m spent on the acquisition of subsidiaries, joint ventures and associates, net of disposal proceeds, and returns to shareholders in dividends of £387m and the share buyback of £323m. Favourable exchange translation was £182m.

At 31 March 2023, the ratio of net debt to underlying EBITDA was 1.1x (30 September 2022: 1.3x). Our leverage policy is to maintain strong investment-grade credit ratings and to target net debt to underlying EBITDA in the range of 1x-1.5x.

Financial results (continued)

Post-employment benefits

The accounting surplus in the Compass Group Pension Plan (UK Plan) reduced to £469m (30 September 2022: £581m) mainly reflecting a decrease in the discount rate, net of inflation, used to measure the liabilities and a decrease in the market value of plan assets. The deficit in the rest of the Group's defined benefit pension schemes has increased to £789m (30 September 2022: £759m). The net deficit in these schemes is £113m (30 September 2022: £108m) including investments of £676m (30 September 2022: £651m) held in respect of unfunded pension schemes and the US Rabbi Trust which do not meet the definition of pension assets under IAS 19 Employee Benefits.

Cash flow

Free cash flow

Free cash flow totalled £565m (2022: £324m). In the six months, we made cash payments of £17m (2022: £33m) in relation to programmes aimed at resizing the business. Adjusting for this, and acquisition transaction costs of £8m (2022: £3m), underlying free cash flow was £590m (2022: £360m), with underlying free cash flow conversion at 56.2% (2022: 53.5%).

Capital expenditure of £364m (2022: £306m) is equivalent to 2.3% (2022: 2.6%) of underlying revenue. The working capital outflow, excluding provisions and pensions, was £169m (2022: £142m). The net interest outflow increased to £61m (2022: £40m) consistent with the higher finance costs in the period. The net tax paid was £199m (2022: £133m), which is equivalent to an underlying cash tax rate of 20.2% (2022: 20.9%).

Acquisition and disposal of businesses

The total cash spent on business acquisitions during the six months ended 31 March 2023, net of cash acquired, was £222m (2022: £135m), including £196m of bolt-on acquisitions and interests in joint ventures and associates, £18m of deferred and contingent consideration and other payments relating to businesses acquired in previous years and £8m of acquisition transaction costs included in net cash flow from operating activities.

The Group received £12m (2022: £26m) in respect of disposal proceeds net of exit costs, which includes the sale of four businesses in Central and Eastern Europe, together with a further 28% shareholding in the Japanese Highways business classified as an asset held for sale at 30 September 2022.

Shareholder returns

An interim dividend of 15.0p per share (2022: 9.4p per share) has been declared, £262m in aggregate, which is payable on 27 July 2023 to shareholders on the register at the close of business on 9 June 2023. The interim dividend will be paid gross and a Dividend Reinvestment Plan (DRIP) will be available. The last date for receipt of elections for the DRIP is 6 July 2023.

The £250m share buyback programme announced in November 2022 was completed in March 2023. Today, we have announced a further share buyback of up to £750m to be completed this calendar year, which takes the total buyback programme announced since May 2022 to £1.5bn.

Related party transactions

Details of transactions with related parties are set out in note 9 to the consolidated financial statements. These transactions have not had, and are not expected to have, a material effect on the financial performance or position of the Group.

Going concern

The factors considered by the directors in assessing the ability of the Group to continue as a going concern are discussed on page 25.

The Group has access to considerable financial resources, together with longer-term contracts with a number of clients and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

Based on the assessment, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the period to 30 September 2024. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial results (continued)

External audit

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 requires the Company to put its statutory audit services engagement out to tender not less frequently than every ten years. KPMG LLP was appointed as the Company's external auditor in March 2014 and its audit for the financial year ending 30 September 2023 is, therefore, its tenth year. The Audit Committee has completed a formal audit tender process and, following this, will recommend to shareholders at the 2024 Annual General Meeting that KPMG LLP is appointed as the Group's external auditor for the financial year ending 30 September 2024. Further details of the audit tender process will be provided in the 2023 Annual Report.

Change in reporting currency

From 1 October 2023, the Group will change its reporting currency from sterling to US dollars to align with its business exposure. The change in presentation currency will provide investors and other stakeholders with greater transparency of the Group's performance and reduce foreign exchange volatility on earnings given that approximately three-quarters of the Group's underlying operating profit originates in US dollars.

Risk management

Principal risks

The Board takes a proactive approach to risk management aimed at protecting the Group's employees, clients and consumers and safeguarding the interests of the Company and its shareholders in a constantly changing environment.

Risk management is an essential element of business governance. The Group has risk management policies, processes and procedures in place to ensure that risks are properly identified, evaluated and managed at the appropriate level.

The identification of risks and opportunities, the development of action plans to manage those risks and maximise the opportunities, and the continual monitoring of progress against agreed key performance indicators (KPIs) are integral parts of the business process and core activities throughout the Group.

Details of the principal risks facing the Group and mitigating actions are included on pages 22 to 28 of the 2022 Annual Report. A description of those risks and uncertainties is set out below.

RISK	DESCRIPTION
CLIMATE CHANGE AND SUSTAINABILITY	
Climate change	The impact of climate change on the environment may lead to issues around food sourcing and supply chain continuity in some of the Group's markets. Issues in these areas could affect the availability of some food products, and potentially may lead to food cost inflation.
Social and ethical standards	Compass relies on its people to deliver great service to its clients and consumers and recognises that the welfare of employees is the foundation of its culture and business. Compass remains vigilant in upholding high standards of business ethics with regard to human rights and social equality.
HEALTH AND SAFETY	
Health and safety	Compass feeds millions of consumers and Group companies employ hundreds of thousands of people around the world every day. For that reason, setting the highest standards for food hygiene and safety is paramount. Health and safety breaches could cause serious business interruption and could result in criminal and civil prosecution, increased costs and potential damage to the Company's reputation.
Pandemic COVID-19	The Group's operations were significantly disrupted due to the global COVID-19 pandemic and associated containment measures, but Compass has recovered well and learned from the pandemic. As a result, the risk has declined. Further outbreaks of the virus, or another pandemic, could cause further business risk.
PEOPLE	
Recruitment	Failure to attract and recruit people with the right skills at all levels could limit the success of the Group. The Group faces resourcing challenges in some of its businesses in some key positions due to labour shortages and a lack of industry experience amongst candidates, appropriately qualified people and the seasonal nature of some of Compass' businesses.
Retention and motivation	Retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long-term success of the Group. The current economic conditions may increase the risk of attrition at all levels of the organisation. Potential business closures resulting from further COVID-19 lock downs or other social distancing controls may significantly impact the Group's workforce in affected regions.
CLIENTS AND CONSUMERS	
Sales and retention	The Group's businesses rely on securing and retaining a diverse range of clients. The potential loss of material client contracts in an increasingly competitive market is a risk to Compass' businesses. Reduced office attendance, closure of client sites and fewer site visitors as a result of the ongoing impact of COVID-19 and related variants may impact revenues in affected sectors.

Risk management (continued)

Principal risks (continued)

RISK	DESCRIPTION
CLIENTS AND CONSUMERS (CONTINUED)	
Service delivery, contractual compliance and retention	The Group's operating companies contract with a large number of clients. Failure to comply with the terms of these contracts, including proper delivery of services, could lead to the loss of business and/or claims.
Competition and disruption	The Group operates in a highly competitive marketplace. The levels of concentration and outsource penetration vary by country and by sector. Some markets are relatively concentrated with two or three key players. Others are highly fragmented and offer significant opportunities for consolidation and penetration of the self-operated market. Ongoing structural changes in working and education environments may reduce the number of people in offices and educational establishments. The emergence of new industry participants and traditional competition using disruptive technology could adversely affect the Group's businesses.
ECONOMIC AND POLITICAL ENVIRONMENT	
Geopolitical	At the half-year, Compass recognised geopolitical tensions, including the conflict between Russia and Ukraine as a new principal risk. The conflict has heightened national security threats to countries, particularly in Europe and NATO and its disruption to the global energy market has contributed to the elevation of the existing cost inflation, economic and cyber security risks.
Economy	Sectors of Compass' business could be susceptible to adverse changes in economic conditions and employment levels. Continued worsening of economic conditions has increased the risk to the businesses in some jurisdictions.
Cost inflation	At Compass, the objective is always to deliver the right level of service in the most efficient way. An increase in the cost of labour, for example, minimum wages in the US and UK, or the cost of food, could constitute a risk to our ability to do this. Increases in inflation continue to intensify cost pressures in some locations.
Political instability	Compass is a global business operating in countries and regions with diverse economic and political conditions. Operations and earnings may be adversely affected by political or economic instability.
COMPLIANCE AND FRAUD	
Compliance and fraud	Ineffective compliance management with increasingly complex laws and regulations, or evidence of fraud, bribery and corruption, anti-competitive behaviour or other serious misconduct, could have an adverse effect on the Group's reputation, its performance and/or a reduction in the Company's share price and/or a loss of business. It could also lead to criminal action, sanction or other litigation being brought against the Company, its directors or Executive management. Companies face increased risk of fraud, bribery and corruption, anti-competitive behaviour and other serious misconduct both internally and externally, due to financial and/or performance pressures and significant changes to ways of working.
International tax	The international corporate tax environment remains complex and the sustained increase in audit activity from tax authorities means that the potential for tax uncertainties and disputes remains high. The need to raise public finances to meet the cost of the COVID-19 pandemic is likely to cause governments to consider increases in tax rates and other potentially adverse changes in tax legislation, and to renew focus on compliance for large corporates.
Information systems and technology	The digital world creates increasing risk for global businesses including, but not limited to, technology failures, loss of confidential data and damage to brand reputation through, for example, the increased and instantaneous use of social media. Disruption caused by the failure of key software applications, security controls or underlying infrastructure could delay day-to-day operations and management decision making. The incidence of sophisticated phishing and malware attacks on businesses is rising with an increase in the number of companies suffering operational disruption and loss of data. The increase in remote working, and the Russia/Ukraine conflict has led to an increase in the risk of malware and phishing attacks across all organisations.

Responsibility statement of the directors in respect of the half-yearly financial report

The Interim Report complies with the Disclosure Guidance and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce a half-yearly financial report. The Interim Management Report is the responsibility of, and has been approved by, the directors.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Interim Management Report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors have permitted the auditor to undertake whatever inspections it considers to be appropriate for the purpose of enabling the auditor to conduct its review.

On behalf of the Board

Dominic Blakemore
Group Chief Executive Officer

Palmer Brown
Group Chief Financial Officer

10 May 2023