

Global Company Highlight: Compass Group PLC



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Company Highlight Series

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Year Founded 1941

Headquarters Chertsey, England

Entered Strategy Q2 2020

Compass Group PLC is the largest food service company in the world, with operations in 45 countries across five sectors.¹ Compass differentiates itself through its unique sectorization strategy, offering customized and innovative solutions to clients under leading brands within distinct sectors. In FY20, Compass had sales of £20 billion, diversified across Business & Industry (37% of sales), Healthcare & Seniors (29%), Education (17%), Sports & Leisure (9%), and Defense, Offshore & Remote (8%).² North America represents 63% of sales, followed by Europe at 25%, and Rest of World at 12% of sales.³

Know What You Own

We added Compass Group to the Jensen Global Quality Growth Strategy in April 2020 due to its attractive valuation and sustainable competitive advantages.

Compass is the low-cost leader in the food service industry, able to utilize its superior scale and aggregated buying power to offer the lowest per unit food and supply costs to its clients. The company also has high switching costs due to multi-year contracts and meaningful upfront capital investment provided by Compass to build on-site facilities. This upfront capital allows clients to pay for services over the life of the contract and avoid large initial expenses, which accordingly enables Compass to earn consistent and attractive returns on its investment. Strong, mutually beneficial client relationships have led to high client retention, averaging 94% over the past decade.⁴

Compass Group is the leading player in non-commercial food services, a £220 billion global market before the COVID-19 pandemic began.⁵ The structural growth opportunity within an otherwise mature industry is an ongoing trend of first-time outsourcing. The industry remains fragmented, with approximately half of the industry still self-operated.⁶ The largest growth opportunity remains within two sectors: Healthcare & Seniors and Education, where over 50% of healthcare facilities and schools still manage their food service operations in-house.⁷

The outsourcing value proposition for corporations, hospitals, schools, and stadiums has long been (1) scale-based cost savings and (2) productivity gains by freeing up resources to focus on respective core competencies. COVID-19 has led organizations to increasingly

¹ "FY2020 Factsheet," Compass Group PLC, 1.

² Ibid, 1.

³ Ibid, 1.

⁴ Compass Group Annual Reports, 2010-2019.

⁵ "Annual Report 2020," Compass Group, 10.

⁶ "Performance, People and Purpose," Strategy & Business Model, Compass Group PLC, March 17, 2021. <https://www.compass-group.com/en/who-we-are/strategy-and-business-model.html>.

⁷ Company Reports, Bernstein Analysis & Estimates, 22.



turn to Compass Group for its best-in-class outsourcing capabilities, including risk mitigation and safety expertise. On recent earnings calls, management noted an acceleration in first-time outsourcing within these underpenetrated sectors.⁸

Outlook

Compass Group is well-positioned to navigate the pandemic and beyond. Jensen believes a strong balance sheet, with nearly £5 billion in liquidity,⁹ and a capable management team, with a track record of investing during past crises, point to market share gain opportunities as less advantaged competitors retrench. COVID-19 hit this industry particularly hard, but Compass quickly right-sized its business to restore profitability and cash flow generation. Going forward, we see Compass Group benefitting from a gradual return to normal life. As global economies eventually reopen, we expect sales and margin improvement for Compass to follow.

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⁸ “Sales/Trading Statement Call: Compass Group PLC LSE:CPG,” Transcript Q1 2021 Sales, February 4, 2021, S&P Global Market Intelligence, 5.

⁹ “Annual Report 2020,” Compass Group, 37.