File name: SSP Group PLC Interim Results 2022 - 24.05.22 transcript.mp4
Moderator questions in Bold, Respondents in Regular text.
KEY: **Unable to decipher** = (inaudible + timecode), **Phonetic spelling** (ph) + timecode), **Missed word** = (mw + timecode), **Talking over each other** = (talking over each other + timecode).

Moderator: We'll start with me briefly setting out the highlights of our performance for the first half. I'm then going to pass over to Jonathan who will share the detail of the financial performance and the business features that drove that. Before Jonathan takes you through the detail results though for the half, I wanted to set out the highlights as I see them being a relative newcomer to the business with a somewhat objective perspective. Cutting to the chase, I've been deeply impressed, not only by the level and pace of recovery but importantly by the trajectory of that recovery and how we're managing the business and each of our stakeholders through this rapid rebuild. We've been able to combine agility with tight financial and capital control as we've delivered strong sales while minimising cost and cash outflows. Sustaining critical client relationships and selectively capturing multiple in market competitive opportunities. This recovery is going nicely. As Jonathan will set out in the first six weeks of the second half, group revenue has averaged 83% of pre-COVID levels and we're currently operating with more than 2200 outlets representing 81% of our pre-COVID estate. Critically though, we're also setting up the business for the long term with a higher than average client retention rate which is a testament to the strength of our client relationships and how we've worked collaboratively with clients through COVID. Now, not only have we reopened many of the outlets that we closed through COVID, but we've also started to mobilise units that we'd previous secured and importantly we've won further new units this year, leaving us with a pipeline that now equates to approximately 500 million of annualised new sales over the medium term.

Jonathan will set out each of these three elements of this pipeline in a few minutes Of course, there remains uncertainty in our markets but we have a strong foundation, a robust balance sheet and considerable internal and revenue momentum going into the summer. So it's against that backdrop and those foundations and not withstanding the awareness that we have of the short term supply challenges and macroeconomic situation that we have the confidence today to give more granular and specific outlet guidance for FY22. Traditional guidance if you like which Jonathan will come to in a moment. So now, Jonathan, over to you.

Jonathan: Thank you Patrick and good morning everybody. Just before I kick off, I'd like to say that I'm delighted to have Patrick now on board. He's really hit the ground running as you'd expect. He's been to a lot of countries already and he's having a very very positive impact on all of our teams and on a personal note, I've known Patrick for several years and I have to say I'm really enjoying working with, and importantly so is the rest of our executive team. Now, looking at the highlights for the first half. We've delivered a very good set of first half results, particularly given the emergence of omicron during the winter. As you can see, ultimately the impact was fairly modest. If we look at the headline numbers, sales were around 800 million and that was at 64% of pre-COVID levels and EBIDTA was positive at 15 million compared with a loss of 110 million last year. On the same basis, operating loss was 36 million, representing a profit conversion of 22% on the sales reduction compared with 2019, which was ahead of expectations. The cash out flow was only 31 million helped by the ongoing recovery in the sales over the period and this left net debt at 340 million at the end of March. Now, as we've done in a number of results recently, over the next few slides I'm going to talk about the numbers pre and post-IVRS16 and then when I've finished with the accounting, I'll move on to talk about the performance of the business. So, looking at the overall PNL, you can see that as in previous period, the impact of IVRS16 is mainly reflected in lower concession fees and offset by a higher depreciation charge.

The net result of these impacts is that the operating loss is 16 million higher under IVERS16, but this I just because of the IVRS16 concession fees, not including the benefit of short term minimum guarantee waivers amounting to 19 million, which was a measure put in place especially for the COVID period. So, these are being treated as exceptional profits. If we included these waivers, the underlying operating loss would be broadly similar under both treatments. Looking further down the PNL, pre IVRS16, the underlying net losses were 67 million and EPS was a loss of 8.4 pence a share. The net losses were higher at 98 million, mainly reflecting the higher interest charges arising from the unwind of the discount on the fixed lease liabilities. Now, offsetting these net losses was an exceptional profit of 85 million. So, looking at the non underlying items, you can see this includes the short term fixed rent waivers of 19 million that I've just mentioned. However, the major component of the one-offs was the profit on the de-recognition of the net lease liabilities of 62 million which was a direct result of the successful long term lease renegotiations were previous minimum guarantees have been removed or replaced with more flexible rent arrangements such as a direct link to passenger numbers. By the way, these include the impact of the new legislation in Spain whereby pre-COVID minimum guarantees all now are linked to passenger numbers. So, if you looked at the balance sheet and the IVRS16 lease liabilities over the last couple of years, you can see that they've fallen significantly from about one and a half billion in March 2020 to about 800 million in March this year.

This reflects this ongoing success in renegotiating these minimum guarantees and essentially making them variable with passenger numbers typically so that they now fall outside the scope via IVRS16. And this is an important commercial point for us because clearly it gives us much greater protection on the downside in the event of any further volatility in sales. So now, moving on from the accounting and talking about the business performance, sales have recovered strongly as soon as the COVID restrictions have been lifted which was very much what we saw last summer and into the early autumn and that was certainly the case prior to omicron and you can see this from the chart. Now, since January, when sales were just over 50% of pre-COVID levels, we've seen this rapid bounce back to 83% in the first six weeks of the second half. And that pace of recovery has been pretty (TC 00:10:00) consistent across all of our major markets. So, from a low point in January, following the outbreak of omicron, you can see that continental Europe, North America and the UK have all recovered fairly sharply to well over 80% of pre-COVID sales over the first six weeks of the new half. Now, in the rest of the world, the picture you can see is slightly more mixed albeit there's a strongly improving trend. So we've seen good recoveries in countries like India, Australia, Thailand, led by domestic air travel but in countries like China and Hong Kong notably, the travel sector remains almost closed and frankly we expect this to continue over the summer at least.

The stronger recovery in passenger demand has been very much led by leisure passengers as people have taken holidays and continue to visit friends and family. The shift in mix towards leisure travel has also help drive sales growth ahead of passenger numbers across both the air and the rail sectors as leisure travellers typically spend more than their business counterparts or commuters, mainly because of their longer dwell times. On top of this, in airports, the additional immigration checks due to COVID restrictions, whilst unfortunately causing a fair degree of disruption to travellers, have undoubtedly increased dwell times over the COVID period and therefore improved our penetration levels. In rail, the more flexible working hours that we're seeing amongst commuters have smoothed out some of the normal rush hour peaks, and, again, that has helped us drive penetration levels during the weekdays. Now, as we move into the summer, we expect to see these trends continue with a further increase in passenger demand driven by leisure travel and broadly following the normal seasonality of our business. So we anticipate that sales will continue to run at around 80 to 85% of pre-COVID levels over the second half. Not withstanding the well documented supply sight challengers as we're seeing right across the industry as it fully remobilises. So, this would equate to around 2 to 2.1 billion of sales for the full year. Now, turning to profit, firstly a look at the shape of the PNL. You can see gross margins were up by 1% against pre COVID levels.

A strong performance, particularly given the challenges of low volumes and, again, demonstrates the effectiveness of our range and menu engineering programs. Clearly, this will be particularly important as we look forward in an inflationary environment. Labour costs have been reduced by 28% but compared to 2019, again, helped by our ongoing efficiency initiatives, including the further rollout of digital ordering and payment technology as well as access to furlough schemes in many continental European markets. You can see concession fees were only 90 basis points above 2019 levels as a percent to sales which, of course, reflects all the work I've just described in terms of renegotiating minimum guarantees and that has been the case throughout the pandemic. We've been very effective in mitigating the impacts of lower passenger levels on our cost base by opening and closing units very flexibly in line with demand as well as flexing trading hours and the next chart demonstrates this. Again, a chart we've shown before. You can see that over the last twelve months we flexed the number of trading units with demand and now have 2200 units or about 81% of our estate open. You can also see from the charts that we didn't really take extreme action in January in the face of omicron, anticipating the drop in passenger numbers would probably be for a limited duration. All of this of course has put us in a really strong position for the rapid recovery in Spring which we're seeing now. So if I look at the overall profit conversion, the profit conversion on the lost sales compared to 2019 was 22% in the first half so very consistent with the performance throughout 2021 and slightly better than the guidance that we'd previously given of 25 to 30%.

It's worth remembering that that guidance was given at the onset of omicron when the level of government support was still somewhat unknown. Now, looking forward to the full year, as I've mentioned a moment ago, we're anticipating sales to be somewhere in the region of 2 to 2.1 billion. So, with sales in this range, we would expect EBITDA margins to be between around 5% at the lower end of that sales range to about 6% at the higher end of that sales range and this is entirely consistent with the profit conversion guidance that we'd previously given. Our medium term expectations remain unchanged. That is for a return to broadly pre-COVID levels of sales, and EBITDA margins by 2024. So, looking to cash flow, underlying free cash flow was a usage of 31 million, helped of course by the positive EBITDA and an inflow of working capital of 15 million driven by the increase of sales between September and March, which has helped rebuild our negative working capital, offset by a small reduction in the level of payment deferrals that we've spoken about in the past. We would now estimate the value of those deferred payments to be in the region of 120 million, but we'd expect no more than 2 thirds of that at most to unwind during the second half. You can also see we've invested 42 million in capital projects in the first half, and that's due to a few projects being delayed due to the onset of omicron, but we're still expecting to spend something in the region of 150 million in the full year. And to complete the picture, you can see that cash interest was 16 million, so well below the accounting charge and the cash tax was minimal.

This left net debt at 340 million at the end of the year. Finally, a word on liquidity, overall liquidity was 607 million at the end of March and that's of course having paid down the 300 million CCFS facility in February. So that's really all I wanted to cover in terms of the numbers. Let me move on now and talk a little bit about the key drivers of our performance. The performance drivers in our business will be very familiar to many of you in this room and then based on delivering top lying growth through a combination of like for like sales and net contract gains alongside a program of ongoing efficiency initiatives whilst delivering high returns on every pound of capital investment in the business. As you know, we've a very strong track record prior to COVID based on this proven financial model and one that I'm very confident we will return to in due course and will continue to deliver good returns for all of our stakeholders. In addition, we've continued to reinvest and strengthen some key areas of the business over the last couple of years with a focus on our customer proposition, especially our brands and concepts portfolio. Our technology, our people, and we continue to work on embedding sustainability throughout the group. Now let me expand on one or two of these drivers. So, firstly, a reminder of the base case scenario that we set out with our rights issue last year. We expected passenger numbers would recover to around 75% of pre-COVID levels in the 22 financial year and about 90 to 95% in 2023. This was driven by the assumption that we would see a swift recovery in leisure traffic once restrictions were eased but a slower recovery in business and long haul air travel and commuter traffic in the rail sector.

Although we didn't anticipate the temporary interruption caused by omicron, I'm pleased to say that our current trading remains closely in line with the base case we set out then. Clearly, it's impossible to forecast the precise pace of the recovery but we still that the base case remains a very reasonable scenario for the next few years. Now, turning to business development, we've consistently demonstrated high retention levels across many years, (TC 00:20:00) generally in the region of 80% but they've been even higher during the COVID period as many of our clients have been willing to extend contracts rather than conduct fully tender processes given the backdrop of market uncertainty. Nevertheless, we have seen some clients running full RFPs, one with the most important in the first half was at Orlando airport in Stockholm and we're delighted to have secured 21 units there, building on a very long standing relationship. We've also continued to mobilise the pipeline of previously secured contracts and one of the most significant is Dublin airport where we're now well into the program of what will ultimately give us 27 units there. Turning to new business wins in the first half, the pace of business development continues to step up so in the first half we secured an additional 80 units which will deliver around 75 million of annual sales. Recent examples of new contracts include in Belgium where we've completed the small acquisition of Colmer which runs 14 units, mainly in railway stations where we're already present. In Guadalupe in the French west Indies, we've built on last years success and Martinique airport and we've added new units to our existing operations in many sites including Chicago Midway and in Bangalore.

Now looking at the overall gaze and what that all adds up to, if we include the new winds in the first half, the pipeline at the end of March stood at 230 units, those are units that we've secured but are yet to open and we think those will open over the next 2 years, and overall these units should contribute about £300 million of annualised sales in the medium term. Now you can see from the chart that the pipeline of units yet to open is fairly well diversified across the globe, although North American and continental Europe represent over 60%. We expect the capital investment behind these to be in the region of £110 million or so. Now in summary, if we take the current pipeline and add the incremental sales still to come from the units that were opened pre and post-COVID but have yet to trade for a full year or trade at normal volumes, the overall secured net gains are expected to be in the region of £500 million by 2025. This would represent another 18% of our 2019 sales base, so put simply, that means that secured units or opened units really will deliver something like 5% to 6% of net contract gains over a 3-year period, which is very much in line with what we saw over the 3 years prior to COVID. Now, turning to our balance sheet and our financial capacity, our priorities for the use of cash remain unchanged from previous years. Our number 1 priority is to invest in organic growth, as typically this is where we see the best returns, but we'll also of course review M&A opportunities as they arise, albeit as ever selectively. Our target leverage remains unchanged.

That is in the region of 1.5 to 2 times net debt to EBITDA, and whilst we return towards this range we will of course reinstate dividends and consider cash returns to shareholders or buy-backs, as we did in the years prior to COVID. However, as we've said previously, we see many opportunities to secure additional new business over the coming years, particularly given the backlog of tenders and transport infrastructure investments that are gradually restarting. Now, under the base case scenario and with leverage in that target range we would expect to have financial capacity for an additional £425 to £475 million of investment to drive further business growth. This is higher than our previous estimate of £350 to £400 million, reflecting the stronger than expected cash flow and balance sheet position. However, I stress our first priority will as ever be to demonstrate financial discipline and securing high returns on investment. A word on the current market environment now. As you'll all be aware, the whole industry is facing significant inflation pressures for many well documented reasons including food, commodity and energy price increases, the conflict in Ukraine, the lockdown in China and low labour availability post-COVID. Whilst to date the impact has been limited, we are expecting inflation to step up through the second half and into next year. Our approach is of course to mitigate these inflationary pressures and we have plenty of levers to work on as indeed we show on the chart. However ultimately where we can't mitigate these pressures, they will flow through inter-pricing very much as we're seeing across the high-street today. But where we see food cost inflation we are re-engineering menus and ranges, switching between different proteins depending on commodity prices.

We're changing recipes more frequently depending on produce prices and seasonality, and our strong supplier relationships and fixed price or fixed inflation contracts are continuing to give us some protection at the moment and will do so for much of the second half. Where we see pressures on pay and pay rates and labour available, we'll continue to simply menus to reduce the need for skilled labour as well as focusing on grab and go formats rather than full service, and we'll increase the use of customer facing technology as well to help. So in summary, managing inflation is very much part of our business model and we've demonstrated over many years an ability to mitigate the impact of inflationary pressures on our margins. And finally a word on our sustainability programme. Embedding sustainability across the business is a key priority for us, underpinning the delivery of long-term sustainable value for all our stakeholders. As a reminder, we launched our sustainability framework back in December, focused on 3 key pillars, you can see on the chart. We've set some very stretching targets but we've got some real momentum and are well on the way to delivering those. You can see a few examples on the chart but just to highlight one, reducing food waste is key to our net zero strategy and through our partnership with Too Good To Go we're selling surplus food at discounted prices in over 400 of our units across 10 countries. Not only does this reduce food waste, it plays an important social role in helping to tackle food poverty. So, now, let me pass back to Patrick to give you some early observations and talk about priorities for the business over the coming months, thank you.

Patrick: Thanks a lot Jonathan. I'm going to now share some initial observations about the business and our priorities for the rest of FY22. Although clearly I'm new to this role, I'm not actually a stranger to SSP. I've joined from Greencore where I served as group CEO for 14 years. Greencore was not only an SSP supplier, but more broadly it was a food to go peer, being a fast-paced, consumer-focused, culinary-led fresh food company and also a long standing supplier partner to some of SSP's biggest UK and US brands and clients for more than a decade. And of course since last summer I've been working hard to understand the essence and the potential of SSP. But my focus in starting formally in role has been to dive head on into the business. I've gone out into the business to see hundreds of our restaurants, bars, coffee shops and convenience outlets, meet many of our teams in person, observe customers first hand and sit down face to face with clients and brand partners in each of the United States, in Ireland, in the UK, in France, in Sweden and in Norway already. In addition I've had the opportunity to meet and work closely with our leadership teams, sharing 2 of our executive committee meetings already, attending 3 PLC board meetings, and importantly diving into the re-forecasting process that underpins our FY22 outlook that we've shared this morning and engaging with colleagues more broadly around the world. Already I feel part of the business but I'm also building a more granular sense of SSP and importantly I think I'm thoroughly enjoying my time in SSP. Let me now share some of these perspectives, starting with why I think SSP is a brilliant business. We've got strong foundations on which to build. First, SSP sits at the intersection of 2 exciting and growing markets, travel and (TC 00:30:00) food.

There's high structural growth potential as more and more people across the world want to travel, but critically the demand for food and beverage solutions at those travel locations is becoming ever more important. We have a set of strong and complimentary businesses across the world. To pick out 1 that is central to our strategy, our North American business is well positioned, it's all about air, catering to leisure and business travellers, consistently building scale and market share, overall and importantly at key airports, but with serious headroom for further share gains and growth for the next decade. US airports are largely locally owned, so our strategy of localising our offer to both consumers and local communities, bringing a sense of place to those airports has been incredibly successful. We're executing that strategy by combining SSP's scale, capability and domain expertise with innovative airport specific partnerships and with a set of locally relevant brand owners to secure and deliver broad multi-outlet contracts with our airport clients. Throughout we execute with strong financial and capital discipline. Second, we've a track record of operational excellence, most recently evidenced during the radically different ramped down and ramp up phases of COVID. What we have, you see, is a nice balance between local ownership, autonomy and entrepreneurship with appropriate scale and capability at regional and global level, with a deeply embedded culture and set of processes to ensure financial, capital and returns discipline. Third, I've been really impressed by the senior leadership team and the wider management team capability at all levels.

They've done all the right things through COVID, keeping our people together through what's been an incredibly bruising time, retaining key people and enhancing engagement levels as we've ramped back volumes on outlets across the world. In particular, and this brings me to number 4 and 5 on the slide, the team have leant in hard with key clients and brand owners during this uncertain period, at a time when, to be candid, many of our peers went missing. And in many instances we've actually strengthened these critical long-standing relationships during the COVID period. You see this quantitatively in the improved contact retention metrics that Jonathan referenced earlier, but I've also heard this qualitatively too first hand in my multiple direct engagements with key clients and brand owners across the world over the course of the last 5 months. Simply put, we have momentum, a strong pipeline and a mandate from our clients and customers to do more. And lastly our balance sheet and liquidity position is strong and improving. Of course we're grateful for the support that we've received from shareholders and debt holders over the past 2 years. This support protected the business when it needed protection but it now creates the opportunity for us to go after the many growth opportunities that we've outlined already, but of course in the disciplined returns way that so characterises how SSP operates. I've seen many opportunities already through my early engagement with the business and I wanted to touch on 5 themes this morning. First, it should go without saying that our immediate priority will be to support and sustain the business and our people and teams through the build back of revenues, profitability and returns.

Allied to this, we can see great opportunity to build further on our strong pipeline, particularly in developed large markets, most especially North America where we already have strong teams, strong market positions, locally relevant strategies and impressive recovery momentum, but importantly where there is material white space in the market for further growth. Building on our expertise and developing brands and concepts and using our wealth of customer insights, I also see a greater opportunity to deliver offers that better appeal to the tastes of post-COVID consumers. We're already doing this with new concepts that I've already visited like Eatery in our land in Sweden, Brooklyn Diner and LaGuardia in the United States, Soul & Grain coffee shops in the UK, most especially in Victoria station, and the Fallow casual dining concept which will be 1 of our largest single restaurants which we'll bring into market in June in Dublin airport. This approach of developing on-trend and scalable concepts across the key formats on which we operate and which we can then roll out at the concept, albeit tweaked by brand level across the world, will be an important feature of our approach going forward. An important part of these propositions is getting the food quality right and I see opportunities to bring more consistency in the quality of our offer, of course appropriate to the brand, price and value propositions that we need to hit. And we're doing this around the world and our exec team are already working hard at. Automation, digital and technology matter. From our perspective they add real value in 3 related areas.

Firstly and perhaps most obviously, it's to play to customers' increasing comfort and expectations to be able to use digital channels to order and pay across all formats, but also it enables us to achieve a step change in the efficiency of our supply chain configuration, which will be very helpful in offsetting some of the inflationary pressures and supply chain pressures that Jonathan outlined earlier. Lastly, it matters for our clients who want to be on the front foot in terms of technology. And finally, we're making good progress in developing our approach to sustainability. Really embedding this into the way we do business, coming at it from a perspective of purpose and not just measurement and compliance is not only the right thing to do, but it's what our clients, consumers, investors and critically our own colleagues and teams want us to do. We've already made some significant achievements with colleague engagement levels notably increasing and achieving our senior level diversity targets 3 years early. I'd also like to acknowledge this morning the extensive community support in multiple forms that our teams are providing to Ukrainian refugees and Ukrainian communities in response to the tragic events that are unfolding there. This support is evident right across the group but it is of course most visible in our central and northern European businesses. More broadly in terms of sustainability, we will be launching our first standalone comprehensive sustainability report later this year. So to finish our presentation then we have momentum within the business right now, revenue is recovering nicely after the impact of Omicron earlier in the calendar year, led by a resurgent in leisure travel across the world.

We delivered positive EBITDA thanks to the revenue recovery that's supported by the financial discipline and first class operating efficiency of SSP. Importantly, we have done a very nice job of retaining high levels of our existing contracts and we have secured many new business wins, all reflecting our long-standing and trusted client relationships and how we engaged with those clients through COVID. Building now on a strong pipeline of new contract wins with a track record of success in this space, a disciplined approach to delivering returns and the scale of the financial head room, we have the ability to take advantage of market opportunities right across the world. As Jonathan laid out, it's an important step change for our business today to feel confident enough in our trajectory to be able to give more precise guidance, namely that we expect full year sales to be in the region of £2 to £2.1 billion and full year EBITDA to be in the range of approximately 5% to 6%. So, thank you for taking the time to listen to us this morning. I'm going to jump back to the desk here and Jonathan and I will take Q&A, starting in the room.

Moderator: Hello, James Morley from Morgan Stanley. Is the 80% to 85% a sign of weakness or conservatism? What is the volume recovery? What is your basket of cost? Are there any permanent savings?

Patrick: Let me give a higher level answer to both of those and, John, you might jump in on the split between price and value in revenue and how that's changed over the years. So the first thing to say Jamie is we're delighted with the recovery and I think in truth where everyone was sitting in January, (TC 00:40:00) if you'd offered us 80% to 85% for the second half we'd have bitten your hand off for it, right? So we're in a space here of good news and trying to (mw 40.09) just how good the news is, if I could phrase it in that way. Of course we're 2 months in, right, and so 2 months in at 83% is what we've incurred so far but I would draw your attention to the fact we're seeking to achieve 2 things in terms of where revenue comes out. 1 is the percentage against COVID-19 but also we've got this very, very strong seasonal uplift that you would have as well. So revenue is likely to get stronger pretty much every week as we roll forward through the summer trading season so we've chosen the guidance deliberately, we think that will give us a very nice outcome. We're ranged it reflecting the fact that we could do a little better probably but there are some features that are just probably worth drawing your attention to that might cap just how quickly the percentage comeback could be. So 1 is the ability of airports in particular to ramp up volume really quickly in terms of passenger travel, and so you can see that in the much publicised discussions on queues at airports, security clearance for security personnel and other people in airports. So we feel very, very good about underlying demand.

We're building that demand back strongly but we're choosing just to be a little cautious about the extent to which that flows through in the rest of the year, in part because we think our clients are going to feel under pressure in terms of meeting particularly the leisure air demand through the summer and that's evident right across the world. So on cost, the only thing I'd say before handing over to Jonathan on that is I've come from a business where cost of sales is a much, much greater proportion of overall sales than is the case in SSP. So of course we've got lots of different formats but our cost of goods is 25% to 30% of sales, it's not 60% of sales like you'll see in some food manufacturers or in some traditional retailers. There is a ton of really, really good work that's happening in the business around range configuration in particular, product configuration within range and use of technology solutions, clever buying and so forth, that's enabling us to mitigate some of the inflationary pressures that we're finding. That probably won't be enough, so you will see us having, as Jonathan said, you will see us having to mitigate some of these pressures through pricing as well. We are conscious that we both have and will have travellers and consumers, some of whom will be under real pressure in terms of their spending ability and we will want to have ranges that work for them. So, I think the best thing we can say is the guidance recognises that we'll fully recover inflation through a wide variety of different approaches, both within our supply chain and as needed in pricing, but with a lot we can do and are doing in the supply chain of our business.

Jonathan: So, I think the only one we've not really touched on there is the price versus volume question Jamie. So, I think if you look back to 2019, I think this is your question, what's the accumulative impact of inflation over that period. The reality is over the COVID period and even now in the first half, we've not really been putting through exceptional price increases, quite the contrary really. So, we would estimate that it's probably something in the region of 10% or possibly high single digit inflation over that period. Clearly that would probably step up in the near term for the reasons Patrick has just explained.

Moderator: Contract gains, over the last 3 years, pretty minimal to strip those out? Because the (mw 44.31) 5% includes contract gains and price.

Jonathan: It does, yes, the contract gains are probably again, in mid single digits, okay, which again is part of the build, you're absolutely right.

Patrick: Yes, but it's tricky to factor that in too much Jamie when we've gone from having 1,000 units open last year to 2,000 units open now.

Jonathan: Yes.

Patrick: So, it's really in that framework that you set out as to what the future looks like Jonathan.

Jonathan: Yes, as ever quite difficult to unpick inflation from volume, but that would be my broad guidance. Tim?

Moderator: Tim Barrett from Numis, I had a similar question really for 2023, the -5% to -10%. How much of that is due to lagging markets like China and the rest of the world, and is there some caution in there around commuter in rail? My second question was on utilities, whether that's an issue or is it all wrapped up in concession fees, what's your exposure there?

Jonathan: Yes, so with regard to 2023, it's a good question, the first point I would make is it's unknowable and we're not going to give guidance which is why we've referred back to the base case we set out at the rights issue, which we think is probably as reasonable a scenario as any at the moment, but you're right actually. The issues that you've got to remember-, and by the way, I think this also pertains to Jamie's first question about the second half. Although we are seeing a very strong recovery now, we do face some structural factors. So, I don't think we're going to see commuters back in the same numbers in the near term and certainly business travel is going to be curtailed. So, in very broad terms, if you go back the scenarios we set out with the rights issue, we said that we thought the strong recovery in leisure and the natural secular growth in leisure travel in the air sector would, broadly speaking, offset a slight reduction in business travel. Ultimately in the medium term we'd end up at a broadly fully recovered position versus 2019. Whereas in rail we said we thought that the passenger numbers would probably, in that same time frame, be in the range of 90% to 95%, reflecting the fact that about half of our business, if you look across Europe in rail, is commuter-based and about half of it is leisure-based.

So, I think we'd stick to our guns at that at this stage. Clearly all of this of course is not withstanding the benefit of all of the new business that we're going to bring on. Sorry, Tim?

Moderator: Utilities?

Jonathan: Sorry, apologies. Utilities, it's a good question because in over half of our business the utilities are passed through to us from our clients. So yes, over time we will see that escalate, but it's in a complex web of service charges. So, we have some protection, I wouldn't want to overplay it, but we have some protection from the escalating utility costs, Ali?

Moderator: Good morning, Ali Nakri from HSBC. Just in terms of the new winds, how many of those are organic new sites, so you've have to build out versus taking over sites? Then has anything changed in term of the tendering environment, given the traffic recovery? Given H2 is seasonally stronger part

of the year, the drop through in H1 has been has been as strong as it has been, are you just being purposefully more conservative on the drop through in terms of the EBIDTA range?

Jonathan: Okay, thanks, all good questions Ali. So, I think the first 1 is quite simple. Our expectation is that pretty much of all that pipeline is organic growth, we will have to put capital into it, which is where that figure of about £110 million comes from. There is the 1 case which I referred to in my presentation of this small business Colmar, where it is an acquisition, but again, the metric will not be wildly dissimilar. In regard to the competitive environment, I think it's fair to say that during the COVID period and even now, the competitive environment is slightly more benign, for reasons that would probably be fairly obvious. With still market uncertainty remaining, I think we and our competitors are probably all being a little bit cautious when we make rent offers as part of full tender responses and we are also for example, always looking for downside protection in the event of further volatility. So, we're looking for no MAGS or MAGS which are manual guarantees linked to passenger numbers, (TC 00:50:00) in almost every case. So, I think that's helping a little bit and that's certainly what we're seeing in the marketplace, the big competitors are acting rationally. I think with regard to the smaller local competitors, who sometimes are the ones that lead to a bit of overheating in the competitive environments, or certainly have done historically.

I think we've some of them either depart the travel sector or certainly not reopen units or participate in tender. So again, at the margin I wouldn't overplay this, I think that's certainly made the overall competitive environment a tiny bit easier. I should stress that's probably time bound with this rapid recovery, I think we'll probably see a more normal environment resume in due course. The final point was about the drop through and you're talking about first half versus second half and are we being cautious in essentially saying we are back in line with our 25% to 30% guidelines. The point I should just stress is that the first half and second half do not behave in exactly the same fashion. We always see lower margin in the first half, higher margins in the second half which is to do with the seasonality of the business. So, if you looked back at 2019, you'd have seen the EBITDA margin went from 9% in the first half to 14% in the second half. To some degree that's reflected in the profit conversion. So, if you do the maths, you would see that based on the current trajectory, it's quite reasonable to assume that from 22% in the first half we could still see something in the region of 25% to 30% for the full year.

Therefore an implied higher drop through in the second half. Also, final point, remember that because of the low sales in the first half we did get government support, which certainly clearly has all fallen away now with the volume recovery in the scene. So, I hope that goes some way to tackle the question Ali. Over here?

Moderator: Harry Gowes from J.P Morgan. A nice kicker to have the financial capacity upgraded, so any thoughts on that? The second one, just on North America, how did the opportunities stack up versus quite a high rate of growth that we had before COVID?

Patrick: Let me try and tackle both of those. So, and if I join up a little bit with Ali's question. There's a series of these themes that they fall into the category of nice problems to have, right? So, I'd love for us to be sitting here in early December, validating that the guidance was cautious, right, that would be great if we were able to do that. Similarly actually, if I look at the consequence of the strong cash performance in the first half and the pace of the recovery of EBITDA means that we do have stronger financial headroom in our balance sheet than we probably expected to have in the early part of this financial year. Now, the reason that Jonathan took you through the capital allocation framework that we have against that, is that we will over time transition to thinking about it in that way. What are the organic opportunities that deliver good returns for us with the traditional SSP discipline around returns? What combination of in-fill M&A like Colmar would create value, that would sit alongside that? Then what does that mean for how we use our balance sheet in terms of getting our leverage into the right place, between 1.5 and 2 times and what does that for mechanism and level of timing of returns back to shareholders, right?

We're going to work through all of that, but we'd much rather be in a position where in effect we've got an extra what, close to £50 million to £100 million of more head space that we thought we were going to have a few months ago. So, that's the main message to take from that, not a signal that we're going to change strategy in terms of how we use that capital. Sorry Harry, you had a second question?

Moderator: North America.

Patrick: North America, yes, I think you would be correct Harry to take from both the quantitative and pipeline overview that Jonathan shared and the impressions that I shared. It would be a reasonable interpretation to recognise the enthusiasm that we have for and the role that we anticipate the growth in America will play in the overall value creation story for SSP going forward, that's fair. The reasons for that play to a lot of opportunity in the current strategy, which is doing more in airports, a relatively low market share that we have in North America, both in the market overall and in some instances in airports where we're already operating. A very high regard that we have both for the operational and commercial and business development capability of our team there and a lot of confidence that we have in the economic model that we have in America. That as we grow, we can deliver good returns. So, I flagged right at the beginning that part of my impressions would be informed both by being new, but also by being somewhat objective. If I just join it up with Tim's earlier question, not withstanding the heritage and history of SSP, air and North America will play a significantly bigger part in the future growth of our business than rail and the UK. You can even see that specifically in the pipeline that Jonathan shared earlier, right?

Which is we've got a very important business in the UK and we're doing a lot of work on it, but you're not seeing the same level of outlets or growth in revenue in the UK that you're seeing in many of these other developed markets.

Jonathan: Probably just worth adding that in many of the mature markets we're in, we have a relatively strong position. Whereas in North America, we're still only a third of the size or less of the major competitor, and again, we've shared this data in the past, we're still only present in less than 30 of the top 80 airports. So, there's plenty of further growth opportunities for us.

Patrick: Yes, and I think we would all feel pretty psyched by the quality of the team that we have there too.

Jonathan: Right, yes.

Patrick: Which in fairness, you've invested behind a lot over the last number of years.

Jonathan: Yes, again, I think the pace of growth over the last decade was a testament to the strength of our team there.

Patrick: Yes.

Jonathan: James?

Moderator: James Ronan Clarke from Barclays. You've got 80% of units open today, could you help us get an idea of when you might have 100% open? To Tim's question earlier, is that a reflection of the structural issues in rail or air in other regions? Secondly, just on your post-COVID consumer, Patrick, you talked about having a different proposition, could you just elaborate on what that looks like and also in those locations you have established that you've changed things what's the performance like there?

Jonathan: Okay, so in terms of your question about the openings and where we're heading. We would hope that if this trajectory continues we will be substantively open by the end of the year in most of our major markets. So, I think in round terms, that would probably see us, certainly north of 90% of all of our units opened. The unknown is as you say, what's happening in those parts of the world where we don't at this moment see a strong recovery. Worth saying that places like China are only about 2% or so of the business pre-COVID. So, not a huge issue for us overall, but there's quite a lot of units there that are currently shut as you'd expect. So, I think that's the unknown. There will be a small number of units which frankly we will take the opportunity presented by COVID never to reopen. So, inevitably within a business of this scale, there are handfuls of units which were probably poorly performing units pre-COVID and won't ever reopen. So, there will be a tail of those, albeit I stress, they're not huge numbers. Probably in low 10's rather than more than that.

Patrick: Yes, so James, I could probably natter on for quite a while about the post-COVID consumer, so I'll try and be a bit disciplined in my response to it. I'll just touch on 4 themes that I think we're running hard with across the business. So, the first is, by the way, we've touched on all of them in different ways in the presentation. So, the greater role of leisure is 1 feature of the SSP customer right now and so that is accompanied by a pretty (TC 01:00:00) significant increase in the dwell time that those consumers have and particularly in airports, right? So, that is leading to a very strong focus on getting bars and casual dining formats really working, where people have a bit more time with their travel. That's very much reflected in the group investment committee proposals that come to Miles, Jonathan and I with our team around a real focus on casual dining concepts and bar concepts and the right both concept but also local partner and local consumer activation, so, that's 1 theme. Second which doesn't go to the food or concept directly, but which is a massive change is the consumer preference for digital, right? That again is relevant in all formats, you'll see it in fast food outlets, you see it in coffee shops. You're seeing it in very innovative ways in convenience stores with some of the Amazon type technology of people who have been able to pick up product without actually ever going even to a self scanning till.

You're seeing it in bars and casual dining restaurants in the order at table technology. So, we're rolling that out hard, we have a pretty gifted technology leadership team that we're really investing behind. Some of that we're doing ourselves and some of it we're doing it in partnership with some of our bigger brand partners. Third is on the food itself and I think we would feel if we were to be collectively self critical, that there are parts of our business where we need to improve the quality of the food proposition at the price points that we're charging. I don't think that's pervasive across the overall group, but there are pockets where we need to do that, and we're already doing it, right? I don't want to, sort of, jump in and claim any massive lurch or intervention in that area. I think as a group executive team, we feel there is some rebalancing that's necessary in terms of really hitting the food quality at the price points that we're charging. Then the last thing is that we've got some concept or proprietary brand developments that we think hit well with the post-COVID consumer. Some of those are in casual dining, but probably the most obvious 1 that any of the people here might bump into is the Soul & Grain coffee shop and food range that we've just launched, it's 1 of our own brands that we've launched in Victoria Station.

Again that's playing to consumers desire for sustainability, it's a very tailored range in terms of health and it's a nice premium and authentic range in terms of coffee, and I'd encourage anyone to try it if they haven't already been there.

Jonathan: I think we are pretty much out of time now, so perhaps just 1 more question if there is any? Just check whether there's anything online or check if there's 1 more from the room, but we're pretty much out of time I'm afraid. Okay, I think we'll-,

Patrick: Perfect, we've just gone 10 o'clock, listen, thank you for joining us in person this morning and to everyone who's joined online or is going to listen online, I thank you for listening through the presentation. I'm delighted to be in SSP, delighted to be working with Jonathan. Hopefully we've given a nice sense for what's going on in the business in the hour we've had with you this morning. So, look forward to catching up soon.

Jonathan: Great, thank you very much indeed for joining us.