File name: SSP Interim results 2023 - 23.05.23 .mp3
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: Morning, everybody. Thank you for joining us today for the interim results presentation for the half-year ended 31st of March. It's great to be back in person and to see so many of you here with us this morning. I'm Patrick Coveney, I'm the Group CEO for SSP and I'm here for today's presentation with Jonathan Davis, our Deputy CEO and Group CFO, and with Sarah John, our Corporate Affairs Director and with several other members of our leadership team. The presentation that we're going to run through this morning builds on the comprehensive interim results RNS that we released at 7:00am in London and I'm going to start by touching briefly on the highlights before Jonathan runs through the financial results and I'll come back in to talk about a strategic update and outlook a little later on.

These results are all about momentum. First, momentum in performance, underpinned by the ongoing passenger recovery. The competitive impact of our growing business capability and our net gains momentum. In combination with our focus on building returns and efficiency, this means that we now expect to deliver sales and EBITDA at the upper end of the planning range that we introduced for FY23 last December, with a corresponding EPS in the range of 7-7,5 p. Indeed, as we look forward, we are also increasingly confident about delivery in FY24. The second momentum in strategy, the strategy that we set out at the end of last year is already delivering for us and is putting us in progressively better shape to win in the global food travel marketplace and to drive long-term growth and returns. In a second, Jonathan's going to detail our financial performance, but let me call out firstly the ongoing top-line momentum, supported by disciplined cost management, which means we've delivered EBITDA of about 91 million and a half and the furthest strengthening of revenues in the six weeks to May 14th. The clear strategic fit of our infill acquisition of Midfield Concessions is also important and we announced that three weeks ago. So, now, let me pass to Jonathan for the financial review.

Jonathan Davies: Good morning, and thank you, Patrick. So, we've seen further encouraging performance in the first half, with sales now back above pre-COVID levels and strong profit growth compared to last year. Looking at the highlights for the first half, on an underlying basis pre-IFRS 16, sales were around 1.3 billion, up 4% versus 2019 and up 64% year on year, remembering that this was against a period where we were still seeing the after-effects of omicron. EBITDA was 91 million, an increase of 76 million vs last year and operating profit was 34 million, compared with a loss last year of 36 million. We invested 94 million in capital projects, compared with only 42 million last year, reflecting the acceleration of our new opening programme. This left net debt at 392 million at the end of March, 52 million higher than at the same point last year, reflecting the higher level of CAPEX and some unwind of our very strong previous working capital position.

Now, looking at the results under IFRS 16, you can can see that EBITDA was just under 200 million and a half, up 140 million vs last year and 109 million higher than the pre-IFRS 16 EBITDA, mainly reflecting lower concession fees as the MGRs are capitalised under IFRS 16. But, of course, this is largely offset by the higher depreciation charge, leaving operating profit just 18 million higher under IFRS 16 at 52 million for the half, up 105 million compared to last year when we saw a loss of just over 50 million.

Now, turning to sales. Trading has strengthened during February and March, leaving sales for the half at 104% of 2019 levels. The pace of recovery remained fairly consistent over the half, compared to 2019, which was very much as we expected. This was of course because the comparatives are more heavily weighted to the rail sector and business travel in air over the winter period, so our first half. And of course these are the sectors which we've always anticipated would recover more slowly than leisure travel in the air sector. On top of this, of course, we were impacted by strikes in the rail sector in the UK. However, as we've moved into Easter, sales have been very encouraging and in the early weeks of the second half, they've strengthened to 111% of 2019 levels, as we've started to see more holiday and leisure travel coming back into the system.

Based on our current trading momentum, we would expect sales for the full year to be at the higher end of the range that we gave back in December. Now, if I look across at the regions briefly, the strongest performance is currently in North America, which is now up at 124% of pre-COVID levels, boosted by buoyant domestic air travel and, of course, benefiting from new openings as well. Continental Europe has also continued to strengthen and this is despite being held back over the last six weeks by some strike action in both France and Germany, which has particularly impacted our rail businesses. In the UK, we've seen an encouraging performance in the early weeks of the half, with sales now heading back towards pre-COVID levels, helped by the strength of trading in the air business, which is performing very much in line with the rest of Europe. Finally, in the rest of the world, we've seen further improvements in passenger numbers, most notably in India, Thailand and Australia. Again, all lead by strong domestic air travel. Finally, a word on China, the travel sector has now reopened, but it's had a relatively minimal impact on us to date, as it's really only domestic flights that have returned in any material numbers. However, as international flights resume, we would expect to see a benefit across the entire Asia-Pacific region.

So, now, let me just look at the impacts of passenger numbers, pricing and new contracts within those numbers I've just given you for the first half. So, you can see here that in overall terms, passenger numbers are back to around 85% of pre-COVID levels in the first half. On top of this, we've benefited from retail price inflation at around 13% and net gains of around 6%, leaving overall sales, as I've said earlier, at around 104% against 2019 levels. If you look at the sectors, you can see that the passenger recovery has been faster in air, taking it to around 90% of pre-COVID levels already, whereas it's still at around 77% for rail. And we've seen small net losses in the rail channel, reflecting our decisions to close some underperforming units, principally in the UK. On the other hand, you can see the strength of the net contract gains compared to 2019 in the air channel, which are already running at 11% and this, of course, reflects the very healthy pipeline we've talked about in the past, in both North America and the rest of the world.

So, now let me turn to profit. Overall EBITDA margin for the first half recovered to 6.9%, in line with our previous guidance and reflecting the recovery in sales. If we look down the P&L, we can see that gross profit margin improved by 20 basis points vs last year and importantly remains 1.3% better than before COVID. This was another really strong performance given the increasing inflationary pressures we're seeing in many food commodities around the world and it demonstrated again the effectiveness of all our work on menu and range engineering, as well as our ability to mitigate inflation through price action. Labour ratios were 2% better than last year and that's despite the inflationary pressures on pay rates. This reflected the recovery in sales volumes, of course, but also the disciplined management of labour levels through efficient scheduling and, of course, the increasing use of digital order and payment technology. Concession fees were now only 90 basis points above 2019, again reflecting the recovery in sales, which has left relatively few units now trading at minimum guarantee rent levels. Based on the sales momentum and our continued progress on margin, we would now expect EBITDA to be towards the higher end of the range that we've given (TC 00:10:00) in our previous guidance in December.

So, if I look further down the P&L, we saw a net loss of 6 million on pre-IFRS 16 basis or 0.8 pence per share in the half. You can see the interest costs were lower year on year, helped by margin improvements on our US private placement notes due to our improving credit rating, as well as some FX gains. The tax charge reflects an anticipated full-year ETR of around 22.5%. So, basically back in line with our pre-COVID range of 22-23%. You can also see here that the minority interest share of profit rose quite sharply from 9 million to 24 million this year, reflecting the very strong profit recovery in the countries where we have material joint venture partnerships and we would expect a similar level of charge in the second half.

Now, let me give you some more colour on the role that the joint ventures play in our strategy. As we've set out before, our strategy is to accelerate our growth in North America and the rest of the world, because these are the regions where we expect to see the strongest structural growth in our markets and we also see the biggest opportunity for expansion and increased market share, and Patrick's going to cover this later. In these markets, importantly, we frequently operate with joint venture partners. In the US there is generally a requirement for joint venture partners under something called the Airport Concession Disadvantage Business Enterprise legislation, or ACDBE, as we call it. This means, basically that in nearly every tender, there is stipulated a minimum level of ACDBE participation and overall these joint venture partners represent about 25% of our North American business. Now, in the rest of the world it's a slightly different story, but again about 30% of our business is owned by minority partners and we have JVs in a number of strategically important markets in the region, including in India, in Thailand, Malaysia, the Philippines and across the Middle East, including the Emirates. Here in particular the local knowledge, access to brands and concepts and relationships with clients and government really strengthen our business capability, both in terms of day-to-day operations, but also our ability to win new business. Generally we operate these joint ventures as if they were part of SSP, but our joint venture partners are generally active co-owners contributing to capital costs and sharing of course in the risk and returns. So, these partnerships are a fundamental part of our business model and importantly underpin our ability to accelerate our growth and expansion in these regions as they have done for a number of years.

Now, moving to cash flow, we saw a free cash outflow of a 118 million in the half, higher than in the previous year, mainly reflecting the higher CAPEX and the usage of working capital, despite of course the strengthening EBITDA that I've covered already. The usage of working capital was largely driven by the unwind of some of our deferred payments and for the full year, as we indicated in December, we would expect to see an unwind of payment deferrals of approximately 80 million. Cash interest was 28 million, higher than the P&L charge, reflecting the payment of some deferred interest on our US private placement notes, which are under the terms of the waiver we received at the time of the rights issue. And for the second half, the cash interest will revert to a more normal level in line with the P&L charge.

Cash tax remain very low and the dividend outflow to the minority partners reflected the comments I've already made. We've stepped up our capital programme to 94 million, an increase of 50 million year on year and I'd like to just give you a little more detail on that now. So, this chart shows our historical CAPEX back to 2019 and our latest forecast for this year, as well as the view of the likely CAPEX over the following two years based only on our secured current pipeline, importantly. We're still expecting to invest around 250 million this year, which compares to 185 million in 2019 and reflects the rapid mobilisation of our pipeline of new units. Importantly, it also includes around 40 million of renewals which were deferred during the pandemic and you can see from the chart that this catch-up investment will continue over the next couple of years. You can also see that we're expecting to invest something in the region of 160 million between 2023 and 2025 on opening the secured new business pipeline and we expect to deliver the normal 3-4 year discounted paybacks on these in line with our historical performance. And, of course, you must remember looking at this chart that we will be continuing to add to the pipeline, something that Patrick will cover in more detail later.

So, finally, from me, a reminder that our priorities for the use of capital remain unchanged. Our first priority, as ever, is investment in organic growth, given our ability to deliver high returns on investment, which we demonstrated historically and we'll continue to exercise the same discipline around investment appraisal as we've done in the past. Our second priority is for M&A and we believe that opportunities will arise in the near-term, as we've seen recently with the acquisition of Midfield Concessions in North America. Based on current expectations, which we'll set out later, we expect to reinstate the ordinary dividend for 2023, which we'll announce with our full-year results in December. And we still believe that medium-term leverage in the range of 1.5-2 times net debt to EBITDA is appropriate for the business and we would expect to return any surplus cash to shareholders, as indeed we did prior to COVID.
So, now let me pass back to Patrick to take us through the business review. Thank you.

Moderator: Thanks, Jonathan, and for those of you following me on the webcast, we're on Slide 15 now. I'm going to go through three items with you in the remaining time that we've got before the Q&A, so first to give an update on the level of travel recovery, the resilience that we see in traveller behaviour and how we're capitalising on these factors at SSP. The second, we're going to talk about how we're delivering on our strategic priorities and how they set us up to deliver further growth and returns going forward. And third I'm going to finish by being specific about what all this means for our outlook, both in the second half of FY23 and beyond.

So, let's start with customers or travellers. There is positive momentum right across the travel markets in which we compete. Here's a reminder of the chart that we showed you last December on the expected passenger recovery. You can see that relative to 2019, there is a pronounced billback anticipated everywhere. We would highlight that air passenger levels in North America, at the end of the decade, are anticipated to be approximately 30% higher than pre-COVID and in Asia it's 60% higher. This growth is underpinned by a series of mutually reinforcing positive trends. They include rising incomes in emerging markets, the growth in low cost carriers, which leads to both a stronger level of consumption in airports and an increased demand for grab and go food offerings to eat on the plane, and major investment step-up on the supply side in travel infrastructure, both by airlines and in airports, and within airports a shift of space allocation from retail towards food and beverage. Underpinning these positive long-term trends, you can see from the chart on the right side, that we have seen a strong rebound in near-term demand post-COVID across both the air and rail sectors, giving us confidence in the outlook for this summer and into 2024.

All of this very much chimes not only with what we're seeing on the ground right now, but also with what our recent research tells us. Over the course of the last six months, we've conducted extensive primary research including surveying some 18,000 travellers across 25 markets as part of our Food

Travel Insight Survey. This has helped us to identify what's important for travellers and for today let me just share three themes with you. First, consumers are eager to travel and see food as an integral part of their travel or holiday experience. Indeed, travel is the number one (TC 00:20:00) priority for discretionary income in each of the 25 markets in which we conducted the survey. Second, customers are looking for new experiences, are less budget-conscious when travelling than they might be on other spend occasions and are willing to trade up for premium, innovative and interesting new food and beverage experiences. Thirdly, and indeed specifically post-COVID, more than half of these travellers see eating and drinking at the airport as an important part of their journey and indeed over 80% of the customers that we surveyed said that they are now likely to buy food and drink at the airport, with a growing proportion now seeking out more ethical and more sustainable food. I'll talk more about how we're using these insights to drive performance in a moment.

Last summer, our Executive Team and our PLC Board, working extensively and together, determined a set of strategic priorities which we set out to you at our preliminary results last December. This strategy shapes the geographic focus on where we are choosing to invest, the areas in which we are building capability, in particular to drive like for like performance and the focus we're putting behind operational efficiency and returns on the back of those strong volumes. Let me start by taking you through some of the progress we're making in each of these areas, beginning with geographic focus. This is a big change. We are materially shifting our portfolio to higher-growth, typically air channels, and faster-growing geographies where we have the biggest market share opportunity. To remind you, we have approximately a 10% share of the North American food travel market in air and that market is growing quickly. In Asia-Pacific, we have a targeted set of country businesses where we expect significant growth, particularly in India, where forecast points to a more than doubling in the number of Indian citizens that will use air travel between 2019 and 2030. We are deploying capital, winning and mobilising new business, and as Jonathan referenced, also complimenting our organic momentum with infill acquisitions. As ever, SSP is doing this with a disciplined capital returns approach. In the UK, Europe and EMEA, we will grow selectively. We'll drive up performance and returns, including in the UK, where we are investing to deliver a step change in our customer and client proposition in rail. As you can see from the chart on the right, the already secured pipeline and the addition of Midfield will contribute to a marked shift in the mix of our business, with North America and the rest of the world growing from 16% of our business in 2014 to 40% of our business in 2026. Bear in mind, as Jonathan and I have both said, that assumption would assume no new infill acquisitions and no new business wins from end of March forward. So, hopefully the momentum of our business in both of those areas will mean that the share of our business in 2026 that comes from those 2 regions will actually be greater.

Our Food Travel Insight Survey highlighted the value of bringing new and exciting experiences to customers. We're putting this at the centre of the development of our propositions. For example, we've recently partnered with two high street successes. The Breakfast Club for Gatwick. This is The Breakfast Club, for those of you over-50, inspired more by the movie than the day part. And Nam Nam, a Vietnamese fast food concept, which we're bringing to Changi Airport. Both of these deliver on being on-trend in terms of proposition and indeed this morning we also announced a partnership with BrewDog in the UK which will strengthen our customer and client proposition in the UK in both air and rail channels. With our own concepts, we are curating food halls in a way that combines multiple brands, typically with an innovative digital proposition in unique locations. A very good example of this is the fabulous food hall in Terminal 2 in Dublin Airport, which we'll open next

month. Our customers are under greater time pressure than they would be in a high-street environment and their biggest concern is typically not missing their flight or their train. For them, speed of service and convenience really matter when deciding where to eat and digital has a key role to play here and we're progressing at pace. We're now developing and indeed delivering our use of artificial intelligence which is enabling us to pitch more relevant menu propositions to customers through a digital ordering interface and it's starting to drive up transaction values. At the same time, we want to make sure that connected customers find the ease that they're looking for when they're travelling and for that, all new units that we're building will now be digital ready, which means they are now going to be equipped with charging points and Wi-Fi connection as standard everywhere. Finally, in terms of digital, we're listening to customers through digital. Our scaled-up partnership with Reputation is already enabling us to scrape all relevant social platforms to get and action customer feedback across more than a 1,000 of our outlets across the world and we'll be bringing that to all of our outlets in the months and years ahead.

Moving on now briefly to sustainability, I don't want to go and spend too much on this, because some of you will have attended the dedicated briefing that we did back on the 18th of April or have had the opportunity to watch the web cast on our website. Having set our net zero 2040 target, we are now in the final stages of undergoing the rigorous validation necessary to secure science-based targets. Importantly though, we are already making strong progress against these targets, with a 36% reduction in our direct Scope 1 and 2 emissions since 2019 and progress on Scope 3 as well. Indeed, integrating lower carbon menu choices both reduces our climate impact and plays into a consumer demand for healthier and more sustainable food and beverage options when travelling. The pace at which we are embedding our sustainability strategy is also having a positive impact on a range of other stakeholders too. We're seeing having a genuine sustainability set of credentials is helping us in hiring and retaining colleagues across the world and for our clients bringing measurement, accurate, science-based measurement, new concepts, brands and menus that contribute positively to the sustainability commitments of our clients, is also helping us to win new business. In this space we aspire to industry thought leadership, but we are also seeing commercial value from acting against this commitment.

SSP is a people business and with the revenue and volume growth that Jonathan outlined earlier, we've stepped up the number of people working with us by almost 10,000 since this time last year. We now have more than 37,000 colleagues working with us in 36 countries across the world. With that level of new people joining the business, we need a clear and high-quality people proposition across attraction and retention, inclusion and engagement, training and development, and safety and wellbeing. In February and March of this year, we tested how we were doing against each of these areas with a group-wide engagement survey, where we scored 4 out of 5 on colleague satisfaction, a modest improvement on last year. It's encouraging to see this result, especially with the investments we're making in this area and with so many new people coming into the business. The growing capability in each of these areas feeds into our economic model, which to remind you covers like for like revenue growth, new business development, profit conversion and importantly cash flow, which then funds our ability to invest again, delivering sustainable high growth and returns.

So, starting with like for like, let me give you a few examples of what we've got after in the first half of the year. Driving like for like performance is critical to our strategy and to our economic model, with the high-profit drop-through that we get from like for like, it is of course also key to our margin

performance and margin enhancement. With about 2,800 existing units located in prime sites and the growing customer traffic, we are well set up to deliver this. You will recall that pre-COVID SSP had a consistent record of driving like for like performance, delivering about 3% growth each year with embedded processes to drive customer capture rates, volume and spend. During COVID, we learnt loads of things, but in particular we saw the benefit of simplifying our offer and focussing on the most valued menu items, as well as the value that digital could bring in driving spend per head. Building on each of these learnings, as well as the post-COVID traveller needs, we've developed a series of programmes designed to get after like for like sales and performance. These programmes are multifaceted, but they include menu engineering, an accelerated rollout of digital order and pay, promotional campaigns, format, brand and concept specific activation approaches, labour scheduling tools and availability initiatives. We're now accelerating the impact of these actions across the business, (TC 00:30:00) but with a particular focus on delivery and performance in our largest and highest value-creating units. For example, in the UK we have a programme which we run across our 25 busiest air units, which together those 25 represent approximately 60% of our UK air sales, and we call this 'best at our busiest' to increase capacity and capture more sales at the busiest times. For example, this includes increasing the number of covers by 30% in targeted units as we enter the peak summer trading period.

Now, turning to the second element of our economic model, business development. Importantly, the rate of new business securing and retention has stepped up materially relative to where SSP would have been pre-COVID. With healthy win rates, this translates into a higher level of net new wins, including 75 million of future sales from net gains secured since we released our preliminary results in December. This takes the total anticipated net gains vs the 2019 reference point to approximately 625 million of annualised sales by 2026. It's important just to connect this back to the comments I made about strategy earlier, because the new business that we're winning is tightly aligned with the geographic priorities that we set out earlier, with two-thirds of this 625 coming in North America and rest of world, within rest of world, principally being Asia-Pacific. As you would expect from a business with Jonathan as CFO, we were doing all of this while retaining financial discipline with expected returns above our hurdle rate and in line with the sort of returns that the business sought pre-COVID. You can see from the chart at the right that we are already locked in to deliver significant levels of net gains over the next three years. To be clear, this assumes no net gains won at all from the 1st of April of 2023, so it's the rollout of what we had secured as of the first half. And what you see for next year is an annual net growth of between 8 and 9% in 2024, including an additional contribution of 2-3% from the Midfield acquisition which I'll talk more about in a minute. All of that, as I say, is based on a business set and secured as of March this year and doesn't factor in our expectation of future growth from this point forward.

Let me pick up just a few examples of new wins in the first half. I'm starting with North America, where we've expanded further in Canada, with new entry into airports in Cologne and Calgary, as well as winning new business in the US in Ontario, California and in Boston. We've secured a further new business contract in JFK, New York, with a package of six units in Terminal 5, that being a terminal that we weren't in previously. In Asia-Pacific, we've won additional business in Malaysia, in both lounges and restaurants, as well as winning new business in Thailand in Krabi. We also secured our first contract in Italy, which will become our 37th country and newest addition to our portfolio when we open units in Rome rail station, the largest rail station in Italy, with hopefully an exciting further pipeline of opportunities to come there.

In terms of renewals in the fist half, we've secured some exciting contracts, demonstrating the strong working relationships that we have with clients and brand partners across the globe. Of particular interest to any UK travellers here, we've secured renewals at Newcastle and in Gatwick Airport where we are completely reconfiguring the space to bring the best concepts, brands and service propositions from SSP. In continental Europe, we've stepped up the scale of our business in Marseilles, which is an important airport for us and which is undergoing a major renovation and extension. We continue to retain the very, very high share that we have in the Nordic region, where across food and beverage, retail and lounges with Torp and six other Norway airports renewing in the first half.

So, consistent with our strategy of accelerating growth in North America, earlier this month we announced the acquisition of Midfield Concessions, a family-owned company based in the US. It's a really strong, strategic fit for us, but crucially, we expect it will deliver fully on the returns expectations that we demand as well. The acquisition comprises 40 units across seven airports in the US, with four of those airports new to our portfolio and one transforming a very small initial position in one other airport. The addition of these airports takes us to 34 of the top 80 outlets in North America and gives us a platform to build out our presence further. It's expected to compete at the end of the summer and should contribute approximately 75 million pounds sterling to revenue in 2024. We're going to provide further insights on the growth opportunities and the drivers of performance in North America at our scheduled investor day at JFK in New York on June 21st, as well as showcasing our North American capabilities and offering you a behind the scenes tour of our facilities in what is our largest global airport, JFK Terminal 4 on the Wednesday. There'll be plenty of opportunity to catch up with Jonathan, myself, Sarah, Miles and others but, more importantly, our full North American leadership. And so we do hope to see as many of you there as possible. So the momentum in terms of the volume growth of the business is building. But we also have an important job to do in terms of building returns on that volume by driving up efficiency.

This is traditionally, and will remain, a core feature of the SSP model. During COVID-19, the focus of our business in this area was on simplifying the business, reducing costs and making our model more agile and flexible. This has proved to be a strong foundation to our programme which has enabled us to revitalise efficiency initiatives across all elements of our supply chain. You can see here on this slide, 20 to 30 examples of categories of initiatives within the business. This capability has been even more important in the current inflationary environment with, for example, weekly inflation tracking through the trade calls that Jonathan and I do with each of the regions, rapid price recovery, market by market, and the faster rollout of digital, off-setting inflation and in reducing our requirement for labour. This multi-year value creation programme underpins our ability to leverage scale and to drive operating margin improvement. So, turning now to outlook. We are observing strong trading momentum. Jonathan referenced earlier that the run rate of the business, in the first 6 weeks of the second half is 111% to 2019.

Just to put that in the context of last year though. We're 34% up on the equivalent 6 week period last year, bear in mind it felt this time last year like the business was surging back. We were well out the other side of omicron. So the level of trading momentum in the business we see as very positive and it's coming through the passenger recovery but also the growing business capability and the accelerating like for like and net gains momentum that we have described. We're also delivering an operating margin on that volume that is in line with our planning assumptions. That means that we're

now expecting to deliver at the upper end of our FY23 planning assumptions on sales and on EBITDA with a corresponding earnings per share in the range of between 7 and 7.5 P. While it's too early to be more explicit, you could hopefully detect from what we are saying that we do have an increasing level of confidence in the delivery of our planning assumptions for FY24 as well. In summary then, post COVID-19, SSP is emerging as a stronger and better and structurally higher growing business. Our pivot towards channels and geographies with higher structural growth is creating sustainable opportunities to accelerate revenue growth, both through like for like and through net gains. This is underpinned by a strengthening business capability with enhanced and improving customer propositions, a greater use of digital, more automation, a step change in sustainability and increasingly engaged colleagues across the world. Our revitalised efficiency plans build on these enhanced capabilities and on our learnings through COVID to drive operational performance and to enable us to build margin.

The SSP focus on cash throughout the business means we will efficiently convert this profit into cash and so in a disciplined way, we'll reinvest this cash back into the business to deliver strong returns. This is a sustainable model to generate long term growth and returns for shareholders and we think it's exciting in every respect. So with that, Jonathan and I will take questions. Let me just jump across to-, good. So we'll start with questions in the room and Sarah will then take questions from the conference call. So Jamie?

Jonathan Davies: I think there's a pause.

M: Morning, Jamie (mw 39.52) from Morgan Stanley. Just a few questions please. First of all with minority interests, the ratio of that charge (TC 00:40:00) to North American and rest of world, operating profit was about a third in the first half of '19 and it raise to about a half in this period. Now I appreciate there's some, sort of, mix and timing factors but has there been any change in the type of contracts you're signing there or do you think that ratio should reassert itself in the medium term? Secondly, sort of, as part of that same question, on the competitive environment, obviously you're winning a lot of business. Are you, sort of, taking more than your fair share, do you think? Are you still seeing some competitors, sort of, you know, trailing, and perhaps not bidding? And then finally just on the debt side of things, any update on plans to refinance the bank debt? Thank you.

Moderator: Why don't I take the second, do you want to take the first and the third first, Jonathan?

Jonathan Davies: Perfect, okay great. So minorities, Jamie, a good question. A couple of points I'd draw your attention to. The improvement in performance year on year was very much led by North America and the rest of the world, hence the, what would appear to be, sort of, disproportionate increase in the (mw 41.11) in the first half. So just to elaborate on that a little bit, if you looked at the rest of the world division in particular, it was essentially breakeven last year in the first half and this year generated north of 30 million of EBITDA and that was very significantly driven by places like India and Thailand where we have 50/50 JVs. So that's the real driving factor behind that shift year on year in the minority interest charge. I think there's another point though which you really go to which is the performance against 2019. So, I mean, that really reflects the fact that we are seeing something of a structural shift in the business and Patrick has talked about it during the presentation. So if you went back to 2019, at an EBITDA level, North America and the rest of the world would have been sub 40% of profit, now they're nearly 60%, and I think that, clearly, the future is unknowable but, if anything, we would expect that proportion to shift over time. And I'm looking at, you know, broadly speaking, our expectations for the full year rather than the half. So that's all about the like for like recovery and the pace of that coming out of COVID, as well as the net gains that we've talked about. It's also worth amplifying a couple of points there. You know, within those markets where we have our joint ventures, there are quite broad spreads in minority participation.

So in the US, for example, you know, that ranges airport by airport between, sort of, 49% and about 10%. So, you know, the recovery of profits airport by airport is one of the determinants of the scale of the minority charge and it's the same in Asia Pacific. I mean, as I've said, we've seen a really, really strong rebound in places like India and Thailand which, you know, have big minority partners, and that's had an influence in the overall numbers. So I'm afraid the devil is in the detail to some degree but I think if you look forward, importantly, you will not see a reset back to 2019 levels if you look at the MI as a proportion of operating profit or profit after tax, which I guess is the real metric to look at. But I think we will see it revert to more normal levels and I think we've given you some guidance for the full year expectations with the minority charge being broadly similar to the first half and I think that we'd expect it then to, you know, thereafter grow more in line with sales rather than take the same, sort of, shift if that makes sense. So I think that covers the MI. Do you want to talk about the-,

Moderator: Do you want to do debt first and then I'll pick up.

Jonathan Davies: Okay. So in terms of the bank debt, that will expire in a little over 18 months, so January '25, and therefore as you rightly anticipate, we wouldn't want to do anything other than, sort of, restructure, refinance that certainly ahead of the full year results. In fact we will very shortly, on the back of these results, launch a refinancing process with the bank group and, you know, that essentially kicks of having actually come out of the government waiver period which was in place from the rights issue so I think more news of that in the near future.

Moderator: Yes, let me pick up on the competitive environment point. If I just start with, kind of, narrow and then I'll go broad, Jamie, if it's okay. Difficult to do this precisely because of the different geographic mix and the role of inflation and so forth, but crudely, as I see it, our level of net gains win at the moment is about twice what it was pre-COVID, right? So, kind of, mathematically, that means we're gaining share, right, and it certainly feels that way in the business and it feels that way as we engage with clients. I would also say and, you know, we would be cautious about being too specific on this, but our level of renewals is at a higher percentage level than it would have, historically, been as well. Now we'll have to see whether or not, you know, that endures over the next number of years, but certainly in the last 12, 15 months, our success in renewing business is at a higher percentage level than the traditional model people might have had for SSP which, again, is reflective of competitive intensity. So I think we feel that the combination of what we're doing plus the competitive context is setting us nicely up to have this level of share gain and, you know, other people need to talk for their own business but there are some things, in the competitive environment, I think that we could draw out. I'd refer you, by the way, there's a statement that we've released this morning which describes the relationship that we have with BrewDog that we're building in the UK, and you'll see them talk very positively about their own business and their proposition but you'll also see them reference just how difficult it is for a high street brand to operate units in a travel environment.

And I think what the industry has learnt is that the specifics on supply chain, people scheduling, logistics, opening hours, time of day, part of which volume bills, is so different from the high street that actually clients are looking now for specialists to take on that business. And we definitely have seen a reduction everywhere in the, kind of, individual high street brands going to their local airport absent the level of expertise that someone like an SSP can bring. So that is a factor in the net gains that we're getting. Secondly, I think it would be fair to say without being too specific, that notwithstanding all of the positive industry recovery factors that we've set out, that the traditional multi-market competitors that SSP would have are caught up in some company specific set of actions and changes that make it a little more difficult for them to be as focussed on the day-to-day business as they might have been before. Now, I think in time that may revert, but for the moment it's definitely feeding into the level of net gains and the momentum that we have. And I think the last thing that I would say and, of course, you know, there are people here, including on our own team, who've got much more understanding of SSP history than me, but I think we're making our proposition better. You know, I think we've got access to an we're leveraging very good brand partnerships. I think we are scaling up and globalising some of those brand partnerships in a way that is more joined up and more senior level than might have been the case before. I think we are doing a necessary refresh on some of our own brands and we're introducing some new concepts ourselves, you know, like Juniper and Soul + Grain here in the UK which are really chiming with what customers want.

And so putting all that together, what we're doing, the competitive environment and the level of new space that's been introduced, either through new terminals or through the refresh of terminals, particularly in air, I think is creating an environment for us to be able to grow the way that we're doing. Now, if you'll allow me, I am going to join that up a little bit to the question that Jonathan answered which is, 'What does all this mean for our economic model?' And we really like the economic model that we have but I want to be very specific on this, it is different from the economic model that we had pre-COVID because it reflects a deliberate choice to participate and grow faster in markets (TC 00:50:00) where our choice on how to access that opportunity has us working with a greater level of equity participation with local partners. Now, those partners are quite different in North America in terms of what they bring, you know, to the single country joint ventures we have in some of the Asia Pacific businesses, but a number of things flow from that, right, if you are trying to reconcile our historic economic model to our forward looking one. One is, we will grow faster. Not mincing my words on that. Our top line growth will be faster than it was before, both in terms of like for like and in terms of net gains. The second feature is that we will be accessing that growth by working more collaboratively with more and with bigger equity participation with partners on a, kind of, mixed basis through our model than would previously have been the case. Importantly, though, as Jonathan set out earlier, that's not just about the capability that those partners are bringing, it's also about the capital that they're bringing.

So our ability to actually fund those growth opportunities, be it in the net gain space, is enhanced by the fact that everyone, basically, is coming in (inaudible 51.13) in our joint venture constructs and contributing towards that. So the capital chart that Jonathan showed earlier which showed the capital contribution for net gains, that's the net contribution from SSP, it's not the gross contribution in funding that growth that's contributed to by our minority partners, in particular recognising that almost two-thirds of that 625 that we've referenced is coming in markets that have high joint venture participation. And then, of course, you will see, as Jonathan set out earlier, that the re-set of our

economic model with that big, one off jump in minority interest, reflecting that step up in those markets, but we think that having happened now in these results and in the guidance for this year, you've got a much more normal level of growth in minority interest participation that's more in keeping with the revenue and profit growth of the business. So, you know, in other words, you can't have one without the other. You can't have the net gains momentum without the support of our joint venture partners in getting it. So, right. Tim.

M: Morning, Tim Barrett from Numis. One shorter term question then a longer term one. Starting with the former, that step up in revenue growth from 104 to 111 recovery, is that mainly volumes or asking it differently, could you give us an idea of exit rate on passenger recovery? And then longer term, you haven't changed the 2024 guidance for Midfield. Shall we just think of that as a housekeeping thing or view the guidance as an organic rather than inorganic number? Thanks.

Moderator: Yes, so, I mean, very quick answer, Tim, to the first one. It's the seven point movement from 104 to 111. Five percentage points is volume, two percentage points is higher net gains, the beginning of the flow through from the 625. I mean, next year, you know, we've chosen our words fairly carefully here, right, which is we feel good about next year but we think it's too early to be specific in formally revising within the range, but at a very minimum, you can adjust whatever you had for the addition of Midfield.

M: At a similar margin?

Moderator: Yes.

Jonathan Davies: Broad as you give, I think if you use the sort of margin you'd expect for North America, that will put you in the right ball park and we've disclosed the sales on that, yes. It was around 100 million dollars. And I think we expect to complete it certainly ahead of the year end so you'll get a full year of that next year.

Moderator: Yes. We want to trade through the summer, see where the business is and, kind of, you know, next time we speak hopefully be in a position to provide a bit more clarity on 24 guidance. Darragh.

M: Hi, Darragh O'Sullivan, Jefferies. With continued revenue growth, are you seeing any change in contract negotiations? Is there higher competition? Are the airports or railway stations demanding more difficult terms? And then secondly, could you talk a little bit around labour inflation. I think it was Connor previously that-, this was quite high in the US before. Is this still the case?

Moderator: Jonathan, do you want to talk about terms? You're a bit of a guru on how this industry works.

Jonathan Davies: Maybe overplaying it. So I think we are still seeing, perhaps, a somewhat more benign backdrop than we saw pre-COVID in terms of the way contract negotiations are playing out but I think that is rapidly disappearing in all honesty. I think that people have short memories and with the strength of the recovery, particularly in the air sector, I think we are seeing the nature of that, you know, competitive tenders start to reflect what we were seeing before COVID to some degree. In terms of the precise nature of them, not really much difference in terms, albeit I think we're still in a much stronger position to either set lower minimum guarantees or have more flexible minimum guarantees, i.e. typically link those to passenger numbers. And that's something that during COVID, when we renewed and extended business or entered a relatively modest amount of brand new business, I think we were very successful in achieving, as I think others have been in the sector and I think we're still seeing some of that continue. But, you know, I think we equally are starting to see, in certain parts of the world in particular, our clients say, 'Yes, COVID's in the rear-view mirror,' and we're going back to a world where we're, sort of, setting minimum guarantees at the same sort of level. But in terms of the overall structure and terms, not a huge amount of difference now, I would say.

Moderator: On labour inflation, we think in inflation generally, both in raw material and packaging and labour, you're seeing the rate of inflation begin to fall a bit. But there are still inflationary pressures. So, you know, we spoke last December about the fact on a, kind of, 12 month to 12 month basis, November to November, we'd seen double digit inflation in labour on average across, you know, the equivalent of 37,000 and 38,000 people who work for us back to the volumes we had then. I think that level of further labour inflation will fall but we are still putting through increases in hourly rate across the world. Fortunately and, Darragh, I'd refer you to the slide that we had on margin and returns which is there are a tonne of things that we're doing to mitigate the impact the impact of that. You know, through digital, through productivity, through the, kind of, mix of formats that we have, and as needed through pricing to offset that and, you know, we're fortunate, we have to take this responsibility seriously, but we operate in an environment where consumers are less price sensitive, typically, than they might be in other environments. And we have to be respectful that, you know, we're not gauging people in doing that but we are able to recover inflation where we need to without seeing material hits to volume or, kind of, material elasticity when we do that, provided we keep the service propositions, the culinary skills and the convenience credentials where we need them to be.

M: Thanks. Morning, Ali Naqvi from HSBC. Just in terms of new contract growth and inorganic and organic, it seems like M&A is stepping up the pecking order in terms of how you wish to open sites. What's the rationale behind that and what's been driving this particular transaction as the one you wanted to pursue? And then secondary, on MC, could you just talk a little bit about the contract length, what you think the retention rates going to be, what the margin profile is versus existing SSP Group business and is there any potential for synergies? And then finally, on technology, you've talked a little bit about employing technology in new sites. Will those sites generate higher returns versus pre-COVID sites or the same? Thank you.

Moderator: So, I mean, firstly, and Jonathan, you might want to follow up on this, but in everything that we've considered and the Midfield Concessions deal that we have announced, if not yet completed, I think the same capital returns discipline that we would apply to our decisions on contract wins and net gains absolutely being delivered (sic). So I hope that will continue to be the case. Certainly we believe it will. In other words, we don't have a different set of hurdle criteria and returns for one form of capital deployment versus another. Specifically on Midfield Concessions, two points I'd make. One, a (TC 01:00:00) feature of the North American business is that contracts typically are much greater in length than the average contract length that you'll see across the rest of the world, by which I mean, like, at least twice as long. So it's not a marginal difference. And so once consequence of that is that actually trying to get into airports that you're not currently in is quite hard because you could be waiting a decade for something to come up. But what we've also learnt is that when you have a presence in an airport, lots of incremental opportunities flow from that. You know, there's

redevelopments going on, construction going on, temporary units get built up. But all of that flows to the people who are incumbents within the airport. And so that set of, kind of, features means that actually trying to find a way to acquire businesses that give us access to airports we're not currently in, is actually a very sensible thing for us to do. And then we think we can bring some incremental value to that in multiple different ways, and so Midfield Concessions falls into that, right.

They're in seven airports, four of them are airports we're not in at all, one further airport we had, you know, one unit in pre-COVID. We don't currently have one there. So you've effectively got, you know, five new airports for us coming out of that acquisition which should be good in and of themselves but should also give us a platform to be able to build out our business further in each of those airports. That's the idea. On technology, the simplest way for me to put that is there is some cost associated with deploying the technology but you can expect us to be testing pretty hard the returns we get from that technology in the group investment committee that Jonathan and I participate in, that tests all of that.

M: Morning, it's Harry Gowers from J. P. Morgan. First one would just be on the UK. So maybe a bit strategically, where do you see the business heading mid term in terms of the opportunities now from space and a margin perspective? And I think you said in rail you closed a few sites, so is there a bit more of an exercise that has to go in terms of refining the space in the UK? And then secondly, if I could follow up on M&A as well. So just wondering how many Midfield style acquisitions are actually available out there right now and what do valuations look like and the competition that you're coming up against in that, kind of, small to mid sized M&A market? And would you be willing to actually go above your leverage target, you know, if the right acquisition came along? Thanks.

Moderator: Will I do the first and you do the second and-,

Jonathan Davies: Yes.

Moderator: Yes. So UK strategy. If you're detecting a slightly different tone from me about the UK, you'd be right to detect it because I think, speaking personally, I'm more positive on the trajectory that our UK business is on today than I was this time last year or in December of last year. And let me tell you why. Firstly, I think we've got our air business really firing now in the UK. You know, you can't quite see that in the aggregate numbers because more than half our business in the UK is rail, relative to the other divisions where typically 80% is air so it, kind of, gets disguised in the mix effect. But if you look at the specific performance that we have in the airports that we're in and the net gains and renewals momentum that we're getting, and the types of propositions and brand partners that we're signing up and the way in which we're bringing that together in the air environment, I think it's all pretty cool actually and I think we're going to have a really high quality air business in the UK which we need. It's our signature market and we need to be brilliant in our home market. I think the rail environment is a bit trickier. I mean, I think I can speak for and with Jonathan in saying we don't think any meaningful part of our agenda in rail is closing more units. I think, if anything, there's the odd unit we gave away we'd probably like to have back if we could, so we're certainly not going to be shrinking our rail business in the UK. And we're doing quite a lot of proposition work to try to get after like for like sales and customer experience in rail. Sometimes we can be accused of, kind of, speaking out of both sides of our mouth on this.

We really like the rail business in the UK but we do recognise that the pace of recovery with a 2019 reference point is slower. Pace of recovery, by the way, right up to last year and the year before is still very healthy, and we think the long term prospects for rail are good and in particular as we get more and more traction on the work we're doing on proposition, asset quality, team, we think we're going to have a really high quality business in rail as well. But in general the, kind of, sentiment and view and momentum that we think we have in the UK is quite good now and it needs to be.

Jonathan Davies: And perhaps just to add to that, Harry, you know, I talked about where the volume recovery is in the rail sector more widely earlier on, but if you think about it, if we're still in volume terms about, probably, sort of, 80% in the UK, that to me points to further opportunity. You know, we knew it was going to be a slower recovery but it's still on an upward trend importantly, right now. And indeed, you know, people in this room are probably still seeing the evidence of folk returning back to offices, so we think it's still on an upward trend and it's got a bit of a way to go, albeit, it's not going to get there overnight. And those units that we've talked about are all closures during COVID which we've just chosen not to reopen, quite frankly, and in some cases we're now handing space back. In terms of the M&A agenda, well I think there are plenty of opportunities out there, notably in the US, as Patrick's indicated, because there are plenty of, sort of, mid-sized, smaller players. You know, not dissimilar to Midfield Concessions, and I think the, sort of, attractive characteristics of the North American market, which is really about contract term as Patrick said, as well as our confidence in the economic recovery and growth, would lead us to focus there. But, as ever with M&A, you've got to be opportunistic. Am I going to tell you quite how many things that might be out there at the moment? No, I'm not. You know, that is the nature of this world. In terms of the, sort of, competition for assets which is a great question, I think we've certainly seen that more limited of late.

I think all of the big international groups and our most immediate competitors, for different reasons, you might argue are somewhat preoccupied with corporate matters which I think has possibly left opportunities for us. And I think if you look at Midfield which is a-, I mean, if you look at consensus out there, it's a, sort of, middle single digit type multiple. You know, that's a nice deal and I'm not suggesting we'll be able to do that repeatedly but I think that gives you an indication that there may be a window here to look for opportunities. But again, as ever, very uncertain as to the outcome in this sort of world.

Moderator: We might take two more questions if that's okay. Yes. (Silence 01.07.47-01.07.54)

M: James Rowland Clark from Barclays. Three questions please. Just first one, the regional profitability. In the first half there's a quite a stark difference between the profitability of the rest of world versus continental Europe, albeit both are ahead of '19 levels. Could you talk about this a little bit and how we should think about the regional margin differences going forward from here? The slide earlier on minorities and the proportion of sales that is attributable to contract with JV partners, is that also the same for the net income of both divisions? So just a point of clarity on that. And then finally on sales trends, you've upgraded the outlook for this year, could you talk about specifically what it is or where it is that you're seeing passenger volumes better than you expected in your planning assumptions? And then the final question on sales trends, I think the implied sales figure for the second half of this year is 9.5% ahead of '19 levels to hit the top end of the guidance, but you're running at 11% ahead, so how do we think about the shape of the rest of the year? Is that conservative or is there something in the comp to think about? Thank you.

Moderator: John, let me try to crack through this quickly. Regional profitability, and bear in mind there are quite marked differences in seasonality between different regions and so at the risk of pointing out the, kind of, blindingly obvious, so our European business tends to be much more summer weighted relative to our rest of world business which, you know, includes Southern Hemisphere businesses and businesses in and around there and so has a smoother leisure pattern through the year than you will see in continental Europe. All that being said, you know, some of these markets that we've references that are growing quickly with the high partner representation are very economically lucrative for us. It's one of the reasons we want to grow them fast, and so I would describe that (TC 01:10:00) in that way. We are not seeing anything that gives us medium term concern, if I answer the question slightly differently, about the economic attractiveness of our continental European business. But, you know, we need to push on, we still have rail participation in some markets and this summer will be an important trading period for us across many of them. In terms of, you know, your point on guidance, I sort of referenced it to Tim earlier. So, you know, we've seen a decent step up in like for like and we're seeing a stronger contribution from net gains. And we expect both of those to build somewhat further through the rest of this year, which gives us the confidence to guide to the top end of the range as we did earlier.

Jonathan Davies: Yes but to that point, you know, the comparatives do get tougher in the second half as the net gains for prior years flew in. So that's why that 110 or 109 that you might, sort of, infer for the second half, still demands some improvement in cash sales of course.

Moderator: And we've just got a big operational job to do to deliver the summer with the, you know, likely level of manic passenger activity everywhere. And so just getting that done is operationally a big focus for us. Did we cover all your-,

Jonathan Davies: MI. So the answer is yes. There will be a different level of net income associated with those business and again, you know, hard to generalise within those joint ventures that are part of both the North America and the rest of the world segment. You've got a whole bunch of different airport contracts and you've got a whole bunch of different countries including India and Thailand which I think we've called out as being highly profitable, which is one of the reasons why, going back to Jamie's earlier question, you know, there's a high MI charge.

Moderator: Yes. Okay. We'll just do one last question if it's there. No?

Jonathan Davies: Right, done.

Moderator: Sarah, anything? No, great. Well, listen. Thank you for spending your time with us, I'm conscious we've overrun by ten or twelve minutes and we look forward to talking to you again soon. Bye bye.

Jonathan Davies: Thank you.