

ValueInvestor

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INSIGHT

True North

High returns on capital at even modestly growing companies can generate impressive compound earnings growth over time. Is the market missing that potential when it comes to food-services company Compass Group?

With a \$34 billion market capitalization it's not a small company, but there's a simple and straightforward sense of purpose behind the U.K.'s Compass Group. It is a global provider of contract food services, feeding some 15 million people per day for a highly diverse set of clients, ranging from Google and the Cleveland Clinic to Harvard University and Dodgers Stadium. "Food catering is where they're best-in-class, where the barriers to entry are higher and the margins are superior," says long-time Compass shareholder Stephen Arnold of Aoris Investment Management. "I wish all companies were as clearly focused."

The sales proposition to clients is equally clear: Serving food in volume is not your expertise. Let us do it for you and by taking advantage of our expertise and scale we'll save you 20% from day one. That message is getting through. In North America, where the company generates 60% of its revenue, the outsourcing pie continues to grow, as does Compass's share. It wins roughly 70% of first-time outsourcing contracts in North America and its customer-retention rates there run in the high-90s. Globally, its 19.6% return on invested capital last year trounced that of top global competitor Sodexo [SW:FP], whose ROIC was just over 11%.

Compass's march to strategic clarity started in 2006 when Richard Cousins took over as CEO after a bribery investigation by the board into a contract with the United Nations. He jettisoned contracts, markets and geographies where the company wasn't competitively strong, shutting down once-important venues like railway stations, airports and highway service centers and exiting a total of 45 coun-

tries. Cousins died in a seaplane accident in Australia in December, but the ethic he installed appears equally present in hand-picked successor Dominic Blakemore, who had been Compass's chief operating officer in Europe. The firm has announced

that over the next year it expects to divest a number of businesses – accounting for roughly 5% of current revenues – that aren't pulling their weight.

Aoris Investment's Arnold doesn't believe today's "technology and growth-

INVESTMENT SNAPSHOT

Compass Group

(London: CPG)

Business: Global provider of contract food services to commercial, governmental, educational and healthcare-related enterprises.

Share Information

(@7/30/18, Exchange Rate: \$1 = £0.76):

Price	£16.29
52-Week Range	£13.96 – £16.84
Dividend Yield	2.2%
Market Cap	£25.80 billion

Financials (TTM):

Revenue	£22.47 billion
Operating Margin	7.1%
Net Profit Margin	5.1%

Valuation Metrics

(@7/30/18):

	CPG	S&P 500
P/E (TTM)	23.2	24.1
Forward P/E (Est.)	19.7	17.6

Largest Institutional Owners

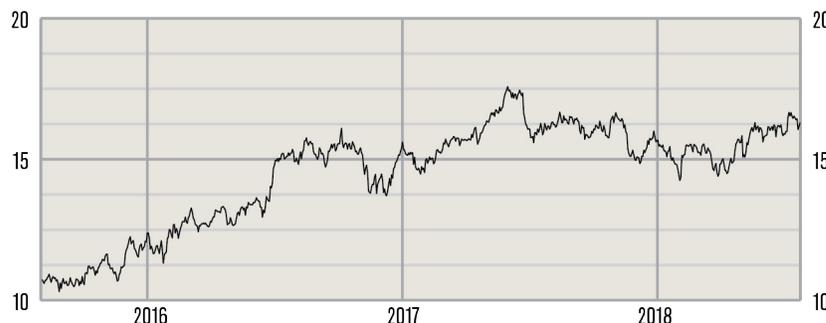
(@6/30/18 or latest filing):

Company	% Owned
Sun Life Financial	6.3%
BlackRock	5.3%
Artisan Partners	4.7%

Short Interest (as of 7/13/18):

Shares Short/Float n/a

CPG PRICE HISTORY



THE BOTTOM LINE

The company in its largest market is taking share of an expanding overall pie and turning that into healthy bottom-line growth, says Stephen Arnold. He thinks the shares currently trade at a 20% discount to an intrinsic value that can consistently grow at 10% per year.

Sources: Company reports, other publicly available information

centric market” is giving Compass its due. The recent share price of £16.30 is 20% below his current estimate of intrinsic value, which itself – through 5% top-line growth, growth from reinvestment of 3% and a 2% dividend yield – he believes can consistently grow at 10% per year. “The

market generally underappreciates the compounding effect of businesses with more modest top-line growth but very high returns on capital,” he says. “We think that’s going to prove very much the case here.”

Does he like global food outsourcing

enough to take a flier on Sodexo as well? “We don’t assume the future is any better than the past, we just want to own the best businesses and buy them when they’re attractively priced,” he says. “There’s only one such business in this market.” ^{VII}

AORIS INVESTMENT MANAGEMENT

To learn more about Aoris' differentiated investment philosophy click [here](#) to download our Owner's Manual. We modelled it on the famous manual from Berkshire Hathaway and it provides a deep dive into our business and investing principles. Alternatively call us at (+61) 2 8098 1504 to get in touch.



About Stephen Arnold

Stephen has been investing internationally for over 25 years. He founded Aoris Investment Management in late 2017 after leading the international equity funds management business at Evans & Partners where he was managing client assets of over \$1bn. Over the six years to June 2017 the portfolios he was responsible for performed in the top decile of a broad peer group of international equity funds.

About Aoris

Aoris is an independent funds management business specialising in International Equities and owned by its key employees. We take a focused approach to investing, dedicating all of our attention to our single concentrated international equities portfolio. We don't do a long/short fund, a small cap portfolio or an emerging market product. We love simplicity and focus on doing one thing well. We are passionate investors who are dedicated to delivering outstanding long term returns to our clients.

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