



COMPASS NOT LOSING ITS BEARINGS

Fraser Fox, Investment Manager, March 2026

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Key takeaways

- AI disruption fears have impacted the share prices of a wide array of companies, including contract food service leader Compass Group
- We think this displays a fundamental misunderstanding of the firm's business model
- Not only that, but Compass is actually benefiting from demand from the agents of its alleged demise

The market voting machine has been in full swing of late, quick to differentiate between perceived AI winners and losers. This swelling tide of unease has enveloped a variety of software companies, with each new iteration of an AI application generating waves of investor angst over its disruptive impact on the sector.

The difficulty of pricing this uncertainty has seen investors adopt a 'sell now, ask questions later' approach to managing this risk. To compound matters, in the last few months AI disruption fears have impacted a wide array of non-technology businesses.

Such cross-sector concerns have arisen in part from a faintly dystopian view of the ultimate economic impact of AI. **Compass Group** has been drawn into this vortex of negativity. Despite its consistent track record as a compounder of wealth, Compass shares have been under pressure in recent months, with the company having been dubbed an "AI loser" by the market.

As the world's largest contract food service provider, the company is present in around 30 countries, with North America and Europe its core geographies. Compass serves over 5 billion meals every year at more than 55,000 client locations.

The bear argument follows the line of thought that if AI disrupts office-based employment, it will reduce the demand for workplace catering. This would suggest an environment where AI represents a chronic threat to a significant section of the labour market, and by extension, personal consumption. Such an outcome would, of course, impact companies across the market spectrum.

Compass misunderstood

However, we believe that concerns over Compass arise from a profound misunderstanding of the business. Only around 20% of the company's revenues derive from exposure to the white-collar market, with the remaining 80% drawn from areas such as sports, defence, mining, manufacturing, education, and healthcare – sectors more insulated from AI risk.

As for the impact of generative AI on office workers, management is of the view that any associated job displacement would affect less than 2% of revenues over several years. Two-thirds of its exposure to this area is composed of professional and financial service clients, where only a very small proportion is exposed to vulnerable entry-level roles in these organisations.

Regarding the remaining exposure, it is perhaps ironic that Compass is benefiting from the growth of the agents of its alleged demise! AI-driven investment is creating new opportunities, such as servicing data-centre campuses and fast-growing technology clients, including OpenAI, which now ranks as one of Compass' top 10 US accounts.

Positioned to benefit from AI

CEO Dominic Blakemore referenced the company's AI opportunity in a first-quarter trading update, stating that "we're well positioned to benefit from the AI economy, both supporting our hyper-scaling technology clients and by participating in the broader AI supply chain." Reflecting this, tech client-related revenues jumped 14% year on year, in what has been a strong start to 2026 overall.

To some extent, Compass has seen this movie before in terms of facing perceived existential threats. This is a financially resilient, high-quality company, led by an experienced and proven management team that has guided the business through periods of flux, albeit the recent bout of worry seems to be founded on misplaced assumptions.

During the global financial crisis, for example, a rapid adjustment of the company's cost base offset the margin impact from falling revenues. In the weeks immediately after the onset of Covid-19, management moved quickly to cut costs, improve productivity, and renegotiate client contracts.

Over this tumultuous period, Compass was able to steal a march on weaker competitors, many of which floundered trying to keep afloat in the wake of the pandemic, while its financial strength gave it a strong platform from which to invest in the business to maintain its lead over competitors.

A robust growth runway

The opportunity set is highly attractive. Company estimates suggest that the addressable global food services market is worth US\$360 billion. Compass has less than 15% share of a market that is replete with self-operated or small-scale regional players, representing a significant growth runway for the business.

Expansion has been complemented by accretive M&A activity, and 'sectorisation' has long been a key competitive advantage. Compass operates brands in five distinct sectors: Business and Industry, Sports and Leisure, Healthcare and Senior Living, Education, and Defence, Offshore and Remote. This structure allows the company to serve multiple, diverse markets and client types. Its ability to provide bespoke services resonates strongly with clients.

Most of the brands in each of these sectors were acquired, with many of their founder-owners, who know their clients well, still in situ. For example, Bon Appétit, an on-site restaurant business based in California, was acquired by Compass in 2002, and CEO and co-founder, Fidele Bauccio, remains at the helm. This model preserves the spirit of entrepreneurialism and brand autonomy, and their inclusion in a bigger whole brings them benefits of scale in the form of procurement, technology, availability of capital and the sharing of best operational practices.

Strong tailwinds for Compass

The long-term investment case for Compass remains compelling. Corporate outsourcing of catering represents a significant market opportunity. By handing responsibility for non-core activities to a third party, companies are free to focus on their core operations, leaving it to their service provider to deliver a higher quality, more efficient, sustainable, and cost-effective service.

Increasingly, more organisations are likely to embrace outsourcing, whether due to financial pressures, the difficulties of complying with best-practice health and safety protocols, or the need to ensure supply chain resilience. These are positive tailwinds for Compass – which in our view is by some distance the highest-quality company in this space, with a scale and balance sheet strength that sets it apart from its peers.

Over the course of a company's history, there will be periods when its business may endure short-term headwinds or it may fall out of favour as markets overreact to perceived threats. We take the long view. In time, high-quality companies, such as Compass, with strong fundamentals and the ability to compound wealth, are typically rewarded by the market.

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