

SSP Group:

engagement commentary



Federated Hermes SDG Engagement Equity Fund
Q4 2022

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ENGAGEMENT COMMENTARY: SSP Group

In a nutshell

London-headquartered SSP is the world's second-largest travel concession caterer. The company operates about 2,700 units across 36 countries and approximately one third of its revenue comes from outside Europe and the UK. SSP's units are a mix of franchise partner brands such as Starbucks or their own proprietary brands such as Upper Crust. The company's units are predominantly found in airports (60%) and railway stations.

\$1.65bn

market
capitalisation
(Nov '22)



21,091

employees (end of
2021) of which 53%
are female



Headline progress

The company has moved markedly on both governance and sustainability over the last few years. The board has been heavily refreshed and governance practices have matured as the company has grown. From near zero sustainability reporting and limited internal initiatives in 2017, the company has established a comprehensive sustainability strategy which includes meaningful measurable targets across relevant topics.

Notable targets set by the company in December 2021 include:

- By 2040, achieve net zero carbon emissions (Scopes 1, 2 and 3) and set science-based targets in line with a 1.5°C scenario within 12 months.
- By 2025, ensure all packaging of own-brand products is recyclable, reusable or compostable.
- By 2025, all divisions globally to have partnerships with food poverty charities and local charities.
- By 2025 at least 30% of the meals offered by own brands to be plant based and/or vegetarian.
- By 2025, source for SSP own brands 100% sustainably sourced palm oil (for the top 50 products in each country) and 100% sustainably sourced tea, coffee, hot chocolate and fish, with further categories to follow.
- By 2025, 33% of the company's Executive Committee and their direct reports will be women.

Investment case

- Recovery in domestic rail and international leisure air travel.
- Promising pipeline of growth opportunities. Strong brands and reputation should enable more contract wins.
- Track record on cost management, positions company well in an inflationary environment.

Theory of change

Given the breadth of the company's global operations, we believe SSP is well placed to have a tangible impact on thousands of people through its direct and indirect employment and on the environment through its sourcing of key ingredients and serving of food and drink daily to customers. Our primary impact thesis centres around three strands:



1. At the inception of the SDG Engagement Equity strategy in December 2017, the company employed more than 35,000 typically low-paid people worldwide. This number reduced to 21,000 during the pandemic, but has since bounced back as operations have resumed.

a) In recognition of the disproportionately high rates of unemployment among certain demographics, such as ex-offenders, refugees and persons with disabilities, we argued that the company should provide employment opportunities (in partnership with third parties) to targeted disadvantaged groups. The impact of such initiatives would be to expand SSP's own recruitment pool and enhance employee morale while providing individuals with a direct route out of poverty.

b) Offering living wage contracts in response to tenders, the company can ensure that workers are afforded at least a living wage. In so doing, SSP can enhance workers' economic resilience and address inequalities while also reducing employee turnover.



2. According to the charity WRAP¹, in hospitality 18% of food purchased is wasted and food waste is responsible for 10% of all greenhouse gas emissions². SSP has long focused on avoiding waste generation in food production, however, surplus food inventory is unavoidable. By establishing partnerships, the company can redistribute surplus food products and in so doing avoid unnecessary waste generation.



3. Finally, as a food and drink retailer serving millions of customers on an annual basis, we have contended that the company is well placed to influence consumers' purchasing decisions. By moving beyond the offering of choice to a position whereby they actively seek to influence choices, SSP can nudge consumers towards healthier eating decisions which are also environmentally beneficial.

Practice of change

The company listed on the London Stock Exchange back in 2014 and has expanded rapidly in the years since.

- In the period of our investment (December 2017 onwards) we have had in excess of 25 interactions.

During our engagement there have been two changes in CEO and a change in chair which in part accelerated and in part slowed progress. Kate Swann, who had been CEO from 2013 and through to its listing, departed in 2019 to be succeeded by Simon Smith. As the headwinds from Covid-19 hit, Smith navigated the business through the pandemic and supported the enhanced focus on sustainability and people (beyond the expense line) but departed in 2021, lured away by private equity. Patrick Coveney arrived as CEO in March 2022 having previously led Greencore, where he oversaw an ambitious sustainability strategy.

Our engagement has included conversations on corporate governance, as well as environmental and social issues, with a consistent focus on SSP's people strategy.

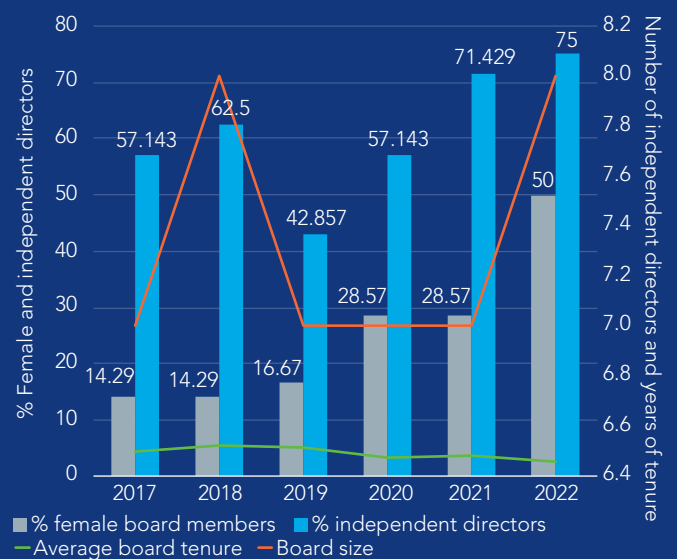
Our dialogues have extended from the chair through to executive management and below. Our engagement has included conversations on corporate governance, as well as environmental and social issues, with a consistent focus on SSP's people strategy.

Governance

In the early period of our engagement with SSP, conversations around governance matters were a priority as the company sought to evolve its governance structures and processes to reflect the maturity of the business. The process around succession planning and retention of key personnel has also been an obvious focus. Positively, in recent years there has been significant refreshment of the board which now features high levels of independence, industry expertise and diversity.

We were pleased to actively input into the company's revised remuneration policy for its executive directors, the end result of which was a shift away from a traditional long-term incentive plan to a restricted shares plan. The new pay structure we believe better aligns executive interests with those of long-term shareholders and closely mirrors the Federated Hermes Remuneration Principles as set out in 2016.

Figure 1: Improving board independence and diversity



¹ WRAP, UK progress against Courtauld 2025 targets and UN SDG Goal 12.3, 2020.

² Too Good To Go Impact Report, 2021.

Source: company filings.

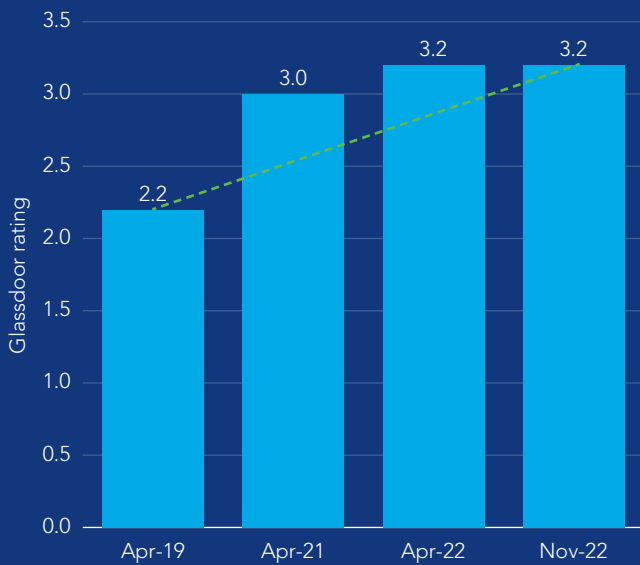
People

The rising cost of living presents a significant challenge to living standards after a period of social and economic uncertainty resulting from the Covid-19 pandemic and near double-digit inflation. SSP's workforce has been in the crosshairs of these two headwinds. The company's operations in effect went into to hibernation during the early period of the pandemic with tens of thousands of employees put on furlough and thousands more made redundant. While operations continue to reopen as international travel returns, SSP's front-line employees are now grappling with higher costs of living.

Having questioned the company's approach towards human capital management in multiple conversations we have been particularly pleased to note that management have consistently given more attention to staff wellbeing resulting in a reviewed and relaunched People Strategy in 2021.

In early 2018 we pointed out to management the company's relatively low rating on Glassdoor (employee review site) and suggested that they were likely incurring unnecessary costs as a result of a higher-than-necessary level of employee turnover as a result of an apparently demoralised workforce. Pleasingly, a few years on and despite a significant period of uncertainty for their employee base, the company's Glassdoor ratings have markedly trended upwards. This trend is further borne out by the company's own inaugural engagement surveys by which, the company notes, they have been pleasantly surprised at both the response rate and sentiment. This should lend itself to lower turnover levels and higher levels of customer service while also being supportive of employee wellbeing.

Figure 2: SSP overall Glassdoor rating



Source: Glassdoor.

Opportunity employment

Some SSP country HR teams have partnerships with local organisations to offer career opportunities to people from deprived communities. For example, in Singapore the company works with the Corporation of Rehabilitative Enterprises and aims to provide permanent jobs to ex-offenders each year. SSP America is an employment partner with Southwest Autism Research & Resource Center to increase employment opportunities for adults with autism spectrum disorder. We have regularly highlighted these initiatives as illustrative of the group's potential to scale their impact through employment. We continue to engage on this topic and will signpost to other corporates which have implemented such initiatives with meaningful beneficial results.

Wages

As a people-centric business, the company has long been, understandably, very cognisant of and sensitive to the impact of labour cost inflation. Despite investments in technology and automation – accelerated by the pandemic – continuing to raise productivity levels, the business will unavoidably remain a people-centric business (labour costs as a percentage of sales were 42% in 2021 and approx. 29% in 2019, pre-pandemic).

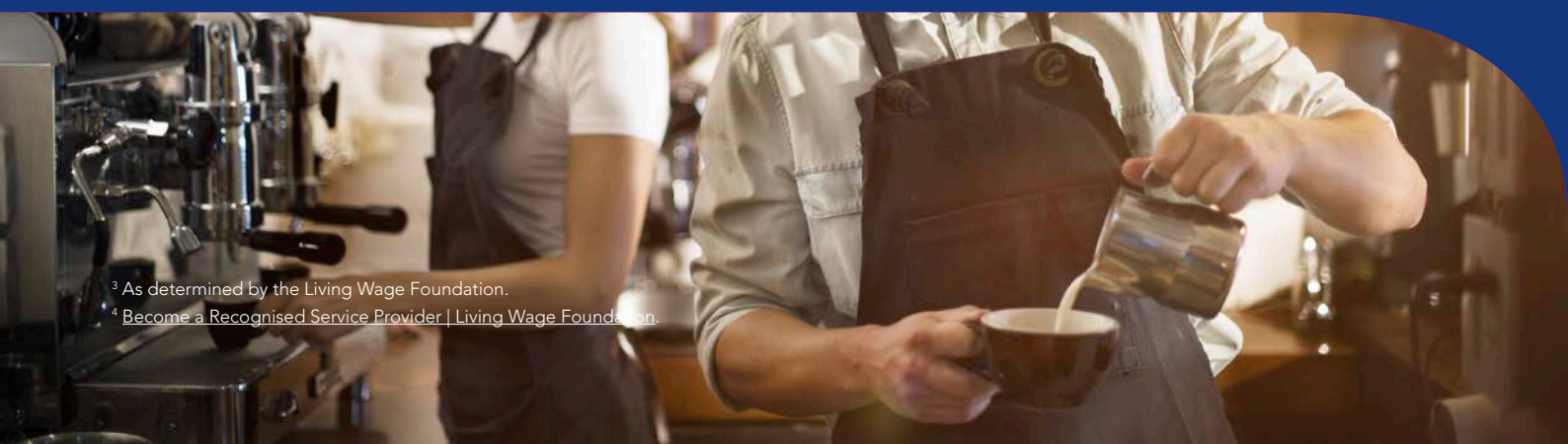
As part of the company's new People Strategy, SSP has committed to keeping pay and benefits under review alongside creating clearer career frameworks in order to both attract and retain employees.

As a people-centric business, the company has long been, understandably, very cognisant of and sensitive to the impact of labour cost inflation.

Nonetheless, it is likely that many thousands of the company's front-line workers are presently paid below a living wage³. In a slim margin business where SSP is competing for contract wins against other operators it is incumbent upon those awarding the contracts to match a commitment to affording employees working in the retail outlets a living wage. To that end, we have consistently cited the Living Wage Foundation's Recognised Service Provider (RSP) accreditation⁴ as a model for adoption. RSPs commit to always offer a Living Wage bid alongside every market rate bid to all prospective and current clients. It ensures the client always has the choice to implement the Living Wage at the point of tender and there is a pathway towards the Living Wage for the provider in place. We continue to explore this mechanism with the company.

³ As determined by the Living Wage Foundation.

⁴ Become a Recognised Service Provider | Living Wage Foundation.





*Assuming 60% of the company's UK workforce are paid the national living wage (effectively the national minimum wage for people over 23⁵), the additional cost (based on FY 2022 costs) of moving that workforce to a living wage (as defined by the Living Wage Foundation) would be approximately £17m. This is equivalent to roughly 20% of the EBITDA for their UK business for FY22. If that cost inflation was applied across the group then that would equate to 33% of group EBITDA. Hence the need for the RSP model.

It has committed by 2025, to introduce food and drink items that support healthier lifestyle choices including wellness brands; lower-calorie, plant-based and/or vegetarian meal options; and non-dairy milk alternatives.

Waste and healthier menus

By reducing food waste, recycling and introducing and promoting more vegetarian or plant-based meals to its menus, SSP will be able to reduce emissions in their value chain. We have had multiple conversations with the company on these themes including making introductions to third parties and sharing insights from across the market.

The company has committed to net-zero emissions across Scopes 1, 2 and 3, by 2040 and is working to establish science-based targets during FY 2022. As part of its sustainability strategy, published in December 2021, the company has outlined plans to reduce, reuse and recycle packaging (all own brand packaging will be reusable, recyclable or compostable by 2025). We have had and are continuing to have discussions around innovations in the market which are supportive of SSP's recycling efforts, for example initiatives around cup recycling.

By reducing food waste, recycling and introducing and promoting more vegetarian or plant-based meals to its menus, SSP will be able to reduce emissions in their value chain.

Pertinently, given our thesis around the opportunity to prevent food waste arising from unsold products, the company has made a commitment that by the end of this year (2022) all of its divisions will work with one or more partners (e.g. Too Good to Go) to reduce food waste at its rail units. Where food remains unsold, the group is working with charity partners to ensure food is directed to those in need. By 2025, redirection to charity partnerships will be established across the group.

- In 2021, 279 units in 10 countries used the 'Too Good to Go' app and sold more than 56,000 bags which resulted in over 56 tonnes of food being saved from disposal and a saving of more than 142 tonnes of CO₂.
- As of H1 2022: 'Too Good To Go' is now live across more than 400 SSP units in ten markets.

Healthier menus

Finally, having noted and conveyed early in our dialogues with the management that we believed the company had a responsibility to its consumers that extended beyond the offering of choice, we were pleased that the company also recognised this in late 2021.

At least

30% 

of meals offered by SSP own brands will be plant-based and/or vegetarian by 2025.

It has committed by 2025, to introduce food and drink items that support healthier lifestyle choices including wellness brands; lower-calorie, plant-based and/or vegetarian meal options; and non-dairy milk alternatives. At least 30% of meals offered by SSP own brands will be plant-based and/or vegetarian by 2025.



Next steps

In conclusion, we commend SSP on the progress it has made to date. Nonetheless, we continue to engage with the company on the themes discussed above recognising that while goals have been set, there remains a long way to go to deliver upon these aspirations. We are hopeful of seeing the positive momentum maintained during 2023 and beyond.

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⁵ Calculations based on NLW in 2022 before announcements of sizable uplift in 2023.

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Federated Hermes

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- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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