

Aramark

**March 13, 2025
10:00 a.m. EDT**

- Joshua Chan: Let's get started here. Good morning. I'm Josh Chan, I cover business services here at UBS. So we're pleased to have Aramark with us today. They are a \$10 billion market cap provider of food and facility services in the U.S. and some other international countries.
- With us from Aramark is Jim Tarangelo, CFO. And we have a fireside Q&A discussion, but I'll open up the floor from time to time for any Q&A as well. So feel free. You can also send your questions on the iPad here. With that, Jim, glad to have you at the conference.
- James Tarangelo: Yes, thank you. Thanks for hosting us this morning. Just a way of sort of opening comments, we're off to a really good start this year. We're really pleased with the results we generated in the first quarter, generating 5% organic growth, 6% organic growth in the underlying food business, 13% growth in AOI and about 25% growth in earnings. We're really pleased with the trajectory of the business. We're off to a really good start with our new business wins. We think we're well-positioned from a retention standpoint. On top of that, we've done a number of refinancing activities lately, including issuing a European bond a couple of weeks ago, actually the lowest coupon, printed for a high-yield issuer -- U.S. issuer out of Europe since 2021. So we're really pleased where we are and the outlook for the business.
- Joshua Chan: That's good to hear, yes. Thanks for that overview. So we are at a consumer conference. So I know that you service a certain segment of the consumer. So based on the consumer that you interface with, how would you describe the state of consumer. Any differences in terms of confidence, spending levels, things like that?
- James Tarangelo: Yes, I'll start off. I mean, for us, unlike a traditional retailer or fast casual restaurant, our consumer segment is much more resilient, right? So we operate in segments like education. So the number of students is pretty predictable, even in an economic downturn. And higher education, enrollment tends to actually go up during periods where people downturn where folks go back to school.
- Health care, think about senior living and hospitals, very predictable and resilient consumers. And even in segments that might be viewed as somewhat more discretionary like sports as an example, we're still seeing very favorable trends overall with record average checks, good transaction levels and what I call the experience-based consumers still looking to spend in sort of that environment. A lot of that performance tends to team-driven. So for us, the consumer remains resilient and strong overall.
- Joshua Chan: Great. Yes. So you've been CFO for just over a year now. And so what's been kind of the highlight over the past year from your seat? And what are some areas that you're kind of paying attention to going forward?
- James Tarangelo: Yes. So, I think it's been a remarkably smooth transition into the role, having been at the company for 20 years and working very closely with John and Tom, my predecessor in leading up to the role. I think we're very proud of the results we delivered last year. It was really about execution, right? As you know, we put this transformation of the company toward a growth oriented hospitality-focused company. So with that model firmly in place, for me, it was really about executing last year and delivering the results that we wanted to deliver.
- And I look back, we had guided to 7% to 9% organic growth in fiscal '24. We delivered 10%. We guide to 15% to 20% AOI growth, we delivered 20%. So we're proud of achieving or exceeding

the results that we set out to deliver. On top of that, improving the financial flexibility, enhancing the capital structure. We significantly improved the leverage profile of the organization, improving leverage from about 4x last year and working our way towards 3x levered by the end of this fiscal year, which would be the lowest leverage the company has had in nearly 20 years.

Joshua Chan: Great. Yes. Okay. So as we look into 2025, I know that you're already into your fiscal year, what are some of the key priorities for management this year? And what are some things that you really want to get right for this year?

James Tarangelo: Well, it's consistent with the highlights I just talked about and that's -- it's a relatively simple business model for our organization. And it really starts with growth. So again, the focus in '25 and beyond is going to be driving that growth-oriented model, achieving the net new target of 4% to 5% that's really core to our model is something we're very focused on.

And with that, we're off to a really good start. We've announced a number of large new wins, including University of Nebraska, Athletics, Loyola Marymount in our higher education portfolio. So we like the pipeline remains robust. So we're very encouraged by the trajectory we see with respect to new.

On the retention side, again, we're well positioned. We just simply aren't the size and scale of accounts that they were out for rebid as there were last year. So statistically, we're just in a better position. We've already secured our largest higher education account with Arizona State University, not only secured it, but we added athletics and concessions. We added the faculty allowance of that program as well. So with that, we think we're very well positioned from a net new standpoint.

And as you know, our net new really drives the output of this business in terms of margin levers, and it really fuels the long-term performance.

Joshua Chan: Great. That's encouraging. Anybody has any questions before we dive into more of the business? Great. Okay. So for this year, you're guiding to 5.5% to 7.5% organic growth, excluding the 2% you get from the extra week. So how are you thinking about the different components that add up the organic growth between the net new pricing based business and things like that?

James Tarangelo: Yes. I think core to the algorithm and financial model for the business, it starts with what we call gross new business, which we target 8% to 10% on an annualized basis with new. We target retention rates in excess of 95%. So with that, you get the net new target of 4% to 5%. On top of that, you get some pricing and some base business or volume growth that gets us to our long-term algorithm, which is a 5% to 8% growth target for the organization.

In relation to the components of growth, that's basically it. So this year, pricing is in the 2% to 3% neighborhood. And again, we continue to target net new in the 4% to 5% range, and that's how we think about the components of growth.

Joshua Chan: Okay. All right. Before we go into the verticals, there is a question from the audience. What's your strategy for the next one to two years in terms of M&A? And where are you seeing the acquisition opportunities? And are you competing with private equity buyers potentially?

James Tarangelo: So our M&A strategy is focused on primarily small and medium-sized acquisition targets that are consistent with our strategy, generally following in three areas, I'd say. Really at the top of the list is adding on to our GPO capabilities and increasing the size and scale of the spend that we manage because that's really critical for our economic model.

And you saw us execute that with the acquisition of Quantum in Europe back in December. That was one of the largest remaining independent GPOs in Europe. It was an asset that we had cultivated the relationship for many years, and it really rounds out and enhances our global

capabilities to serve clients like Marriott and Hyatt more globally. So that's a differentiating asset for us.

Refreshment Services or convenience retail is another area of the business. You think about the sort of a route-based business with a fixed cost. So anything you could add on to those routes becomes very margin accretive to the organization. So again, we executed an asset called First Class Vending, which is one of the top vending businesses based in California more recently, so consistent with that strategy.

And then finally, enhancing the brand. So we've done a number of sort of small bolt-on type deals to bolster brands and sort of enhance our capabilities to serve premium segments of the market. An example there would be Graysons or Wilson Vale in the U.K., which allows us to serve more premium clients really adding on to the Aramark core brand.

Joshua Chan: Okay. And how are you -- since we're on M&A? How are you thinking about balancing the path to 3x? And then M&A. I think you recently have a repurchase authorization as well. So how are you kind of balancing all those priorities?

James Tarangelo: Sure. So first of all, this is a company that generates a lot of cash. It's very resilient. So we have good visibility and predictability into our cash flow generation. So in terms of capital structure, we're working our way towards 3x levered by the end of this fiscal year. And as I noted earlier, that's the lowest leverage we've had since 2007.

Optically, I think we do want to get under 3x as we work toward fiscal '26. We find that particularly with sort of European, Asian and Australian investors who are expressing a lot of demand in our- or interest in our equity, optically being under 3x or the path under 3x is important. So that's something we can -- we're focused on. In conjunction with that, we announced a \$500 million share repurchase program back in November. I think a testament to the confidence the management team and the board has and the outlook of the business. And we started commencing with buybacks at the end of Q1. We're active buyers today. We see a lot of value in terms of where the stock is trading versus where we see the intrinsic value. So we will be active when we see opportunities and balancing that with working our way toward 3x levered as well.

Joshua Chan: That's great. Great to see the different options. So in terms of your business going- looking at the different verticals. So sports has been one of the very strong growers within your portfolio. Could you talk about kind of the spending backdrop and whether you see the strength being sustainable over the coming years?

James Tarangelo: Yes. Sports has remained -- sports and entertainment has remained a strong segment for the business. We continue to see record per caps being generated for the organization. We've been able to leverage technology very effectively in this sector. So if you think about adding in automated checkout point of sales where you can have one attendant monitoring multiple point-of-sale systems. You see this in a lot of the stadiums that increases the number of transactions that can flow through with enhanced labor productivity. So specific tactical thing we do there.

I think more higher level, in particular, in sports, the opportunities we see within collegian and university. So while the professional market might be more mature from an outsourcing standpoint, we see lots of opportunities with collegian athletics, many of whom self-op. You see some of the wins we've announced with Arizona State adding athletics, University of Nebraska. Colleges and universities are increasingly seeing athletics as a source or a need for funding, right, with name, imaging like this, essentially, athletes being paid leads to enhance funding requirements, so they want to elevate that fan experience, elevate the average checks and sort of more replicate what we do on the professional sports side of the business.

Many of these stadiums are in football and basketball. Well, they're larger than their professional stadiums counterparts and they're introducing alcohol. So this is a really exciting opportunity for the business.

Joshua Chan: Yes. And are you seeing that building your pipeline in terms of potential new win opportunities down the line?

James Tarangelo: We are. I mean, I think it represents a significant opportunity for the organization. I think we serve something like 500 colleges and universities today. Less than 50% of those do we do athletics and sports. So even cross-selling within the business is a big opportunity for us. And like I said, it's something that we are actively pursuing, reacting to the needs of the market.

Joshua Chan: Okay. Okay. So education is another sizable part of your business within the U.S. So how does your exposure breakdown between K-12 and higher ed, and what trends are you seeing there?

James Tarangelo: About 80% of the education sector is what we call collegiate hospitality, which is colleges and universities. We continue to see favorable trends in this sector as well. I know it's sort of from a macro perspective, there's some concern about an enrolling clip. But within the Aramark portfolio, we have a heavy presence and exposure to warmer climate schools in the South and Southeast. So think about SEC-type schools. And there's been a migration from students to those warmer climate, larger universities. So we're seeing and continue to see favorable enrollment trends across the business. So that's sort of on the macro side.

From a tactical standpoint, the business has done an excellent job enhancing our retail capabilities, what we call meal plan optimization. So a big piece of the higher education business are residential meal plans, right, your freshman sophomore year, fall and spring, board plans as you might say. And we've done a nice job basically moving folks up the value chain, moving from, say, a silver plan to a gold standard plan, in some cases, introducing a platinum plan, recognizing there's always a portion of the population that will migrate to something that's even higher there.

So that in conjunction with getting more upper class in juniors and seniors under these funds, we call them voluntary meal plans, typically after freshmen sophomore year. Students tend to do sort of coke on their own, but there's certainly opportunities there sizable to get those juniors and seniors on to Aramark-sponsored plans.

Joshua Chan: Okay. Great. And then on the business and industry side, you've had very strong double-digit growth since the pandemic recovery really. I'm sure back to office is a tailwind. So do you see that continuing to help growth over time? And what are you seeing in terms of potential new wins, opportunities to, in B&I?

James Tarangelo: The B&I segment has been performing very well, double-digit growth for a number of quarters. The return to work is certainly a moderate sort of tailwind to the business. And I think you see it here in financial services here in New York, right, last three days a week became four days a week, four days a week became five days a week for many of our clients, including JPMorgan and Goldman Sachs as some examples.

But not only that, but when folks are in the office, we're seeing participation rates being elevated because 2/3 of our B&I segment is subsidized, which means we can offer more attractive and lower-priced meals and going out to retail or the high street. So that combination with employers liking the collaboration and keeping folks into building more productive have been some of the tailwinds that we're seeing benefiting that business.

Joshua Chan: Okay. So maybe a couple of topical questions. So I guess looking across your entire business, how are your leaders thinking about your exposure to the federal government spending? Could you size for us what potentially could be at risk from a federal spending perspective?

- James Tarangelo: Sure. Yes. Good question. I think there's a bit of a misperception out there. So I'd like to sort of clarify. Our exposure to federal contracts overall is only about 2.5% of our revenues, and about 2% of that is with the National Park Service. And within the national parks, our contracts are all individually negotiated. So our contract for Denali is separate terms, conditions and length and investment than our contract with Yosemite. Yosemite is very different than Lake Powell. So they're not negotiated on an aggregate basis, they're sort of all unique assets that are negotiated on a one-by-one basis. Again, I know there's been some negative press in general with DOGE, but the bottom line is we've seen good outlook in the business in terms of room bookings. And then the government has announced, we're hiring 3,000 seasonal workers in the national parks. And national parks are a source of great pride and it's also a source of funding for the government, where there's typically a commission that's paid back to the government as a percentage of the sales. So we see the outlook in that business good. And again, in total, only about 2.5% of Aramark's revenues are coming from federal contracts.
- Joshua Chan: Sure. And do you feel like the state and local piece of your business is more insulated from the-
- James Tarangelo: Yes. The state and local is primarily going to be on the correction side and on the K-12 side of the business. So our corrections business has been performing very well. The net new business there has been very strong and that's a business where the outsourcing trends are very favorable. We see many states, significant opportunities for those states to outsource. So we see that business continuing to grow.
- And then K-12 is much more of a local decision. That's not a federal decision, right? That's all local school boards and municipalities. And again, I think more than 50% of that sector is still self-op. So we see significant opportunities to improve efficiencies for those municipalities that are continuing to self-op and creates opportunities for Aramark.
- Joshua Chan: Great. Thanks for the color there. And the other topic that we've been getting questions on is the tariffs, so could you kind of ballpark for us what's the imported food component, but then also what happens if your cost with the tariffs included kind of goes up?
- James Tarangelo: The vast majority of our products that are used and consumed in the U.S. are produced in the U.S. So over 85% of our product and consumption is produced in the U.S. So where we have some imports, Mexico maybe a few percentage points, it's primarily seasonal fruits and vegetables. As we come into the spring, most of those fruits and vegetables are actually produced in the U.S. or actually less reliant on Mexico over the next few months.
- Some additional comes in- product comes in from China, but that's primarily textiles and linens. And those products generally are more on the Avendra on the GPO side of the business. So obviously, we want to mitigate any cost pressure there, but it doesn't affect our P&L or our cost of sales directly. And with China, this is nothing new. We've been looking for and there are alternative sources with Malaysia and Vietnam, so we do see some of that production shifting. So the takeaway is really our exposure on the tariff front is limited because, again, the vast majority of our consumption and production are in the countries that we operate.
- Joshua Chan: Okay. That's great. So when I think about your guidance, the top line guidance for the year, I guess, the 5.5% to 7.5%, excluding extra week, so organic growth was just under 5% in Q1. So could you talk about the cadence through the year? And what drives that acceleration from Q1 as we kind of go through the rest of the year?
- James Tarangelo: I think the simple way of looking at it, sort of you talked about the 5% organic print in the first quarter. We also talked about a 2% headwinds from exiting those facilities contracts. Have you sort of add that in your sort of 7%, which is at the high end of the algorithm we've always talked about, 5% to 8% organic growth is the model that we need to sort of fuel via the margin lever.

So that in conjunction with lapping the facilities exits, onboarding new business that we've already won or not relying on business on the come, it's a business that we already know about. In conjunction with the favorable outlook we have on retention, right? Our business is contractually-based. It takes time if you were to switch contracts. So we have very good visibility for the second half of the year at this point. And so we are confident in that ramp-up in revenues that's implied from the guidance.

Joshua Chan: Okay. And what would drive the difference between whether you hit the low end or the high end of that.

James Tarangelo: Yes. We have- there's a number of fairly sizable contracts that are in the pipeline. So to the extent we are able to convert more of those and sort of accelerate when those commence, that could potentially be where there would be upside. Like I said, we have good visibility into the outlook. We're- for us, the consumer has remained resilient to the extent that changes in terms of sort of just number of folks coming to concerts or events that could affect it as well.

But like I said, we have good visibility and what we're seeing is favorable trends in the business overall.

Joshua Chan: Right. Yes, that's good to hear. So on the net new side, you target 4% to 5%, like you said, it sounds like you feel good about hitting it this year. I guess, could you just talk to the pluses and minuses of how you feel about getting to 4% or 5% or maybe even above that this year?

James Tarangelo: Yes. So on the new side, the company has had consistent performance in generating new business. Last year, we generated \$1.4 billion of new business, which was a record for the food and facilities organization. This year, if we look at the pipeline of what's been pending and what's been proposed and expected conversion rates, we are on track, and we've announced, I said, a few large wins already with University of Nebraska, Loyola Marymount. We expect to announce a few more in the coming earnings call. So that in combination with the outlook we have on retention, which again, we have good visibility into what's out to bid. There's just less in terms of number and size and scale that there were in prior years. It gives us a lot of confidence into both the new and the retention that we're on track to achieve the 4% to 5% net new for the organization.

Joshua Chan: Okay. And where -- what verticals do you see the most opportunities for net new over the next like one to two years?

James Tarangelo: Yes. The great thing about our business is it's broad based, right? I mean as we look at the sectors and we sit down with the different businesses and target net I mean, they're all in that range of sort of 8% to 10% in terms of net new or greater. So not only sectors, but geographies, right? The countries that we operate in have significant runway as well. Particularly on directions, business dining, as an example, higher education or some that we've highlighted off to particularly strong starts this year. But the bottom line is we expect that new target to be really consistent across all the sectors that we operate in.

Joshua Chan: That's great. So there's been an outsourcing push since the pandemic. And so where are you seeing first-time outsourcing? And do you feel like that like the elevated trend can kind of continue?

James Tarangelo: If you look at where we win our new business, I think, historically, about 1/3 would come from first-time house sourced conversions, about 1/3 will come from the large global players and about 1/3 from small regional players. During COVID, we saw first time outsourcing conversions, about 40% of our new business coming from there. And that's remained elevated, in particular, I think just the overall labor challenges and inflation historically.

I think something we do every day, we're effective at. Managing technology, I think, has become an important part of how we provide value to client in terms of improving productivity with things like unattended micro markets or self-checkout. Those sorts of things allow us to increase

productivity, and it's something we're good at and requires technology investment. So I think those are some of the reasons we've seen the percentage of first opp conversions being higher than it has historically.

Joshua Chan: Okay. And from a retention perspective, how has that been trending? And what drives fluctuations in retention perspective?

James Tarangelo: We have elevated our retention game, right, over the past few years. If you look at the underlying food business, we've been operating in the 95% to 96% retention levels for the past few years. So I think we've done a nice job improving retention as part of this transformation that the company has executed. We're heavily incentivized, the management team, the sector teams, in terms of retention and net new, it generally is about 40% of our incentive compensation. We've decentralized the organization. We've heavily invested in sales resources and retention resources to both elevate the consumer experience and elevate how we serve our clients. And as I said, off to a nice start with already retaining what was the largest account we had out to bid this year with Arizona State.

Joshua Chan: Anybody has any questions from the floor? Yes.

Unidentified Audience Member: [inaudible]

James Tarangelo: Yes. I'll start. The market in general is rational. The large players are all growing. They're all showing margin improvement. Capital levels have remained relatively consistent. I always like to start with the market, right? It's an attractive market. It's a \$300 billion market that is still relatively fragmented, so I think I'll start with the industry overall, which we continue to see as favorable and rational.

We like how we stand versus our competitors. We've elevated our game over the past few years. If you compare our organic growth rate with competitors, we think we're in a good spot. And the percentage of business that we're taking, as like I said, has been about 1/3, that hasn't really changed. The new model is really driven by tailored solution, client by client, empowering the field. They're closer to the decision makers closer to what the clients want. It's often not about price. It's often typically about the relationship, the complexity of the service, tying into a local brand as a good example in terms of partnering with local companies to satisfy needs of a stadium or university. So that's how we think about these customized tailored solutions built on long-term relationships and having the right team on the ground is really the key differentiator between us and our competitors.

Unidentified Audience Member: [inaudible]

James Tarangelo: There's certainly a lot of interest, as you said, a lot of PE that has got involved in the sports business. For us, it's- we've been a global leader here in the U.S. for many, many years and expanding our capabilities, sometimes partnering with some firms to sort of elevate the fan experience, partner with companies that's focused more on things like sponsorships. But you see that I think in college athletics, in particular, where the schools are increased funding requirements, I think recognizing the value of the assets they have similar to professional stadiums and then looking to invest and looking to elevate their fan experience. They think about the progression of professional sports to the offering 30 years ago, like you have folks going to games and events really for the experience and the food. I think you're going to see more of that in college athletics, on top of the fact, alcohol becoming more common, just leads to higher average checks. So a source of funding for those schools and overall an attractive asset that they have on their hands.

Joshua Chan: Anyone else? All right. Maybe shifting a few minutes on your international business. So you're in select markets internationally. So could you talk about what countries you're in and why you're in kind of those countries and not others?

- James Tarangelo: Sure. Yes. We have a footprint in our international business. A few key countries for us, some of the larger countries in South America. We have a very strong presence in Chile. We have a leadership position in what we call remote services for the mining sector. We have a significant presence in Canada. I think our sectors mirror pretty much what we do here in the U.S. and complements the U.S. business very well.
- Over in Europe, we have a sizable presence in Germany, the U.K., Spain and Ireland. And then in Asia, we have a very strong presence in China and a leadership position in health care facilities. So the countries that we are in provide significant and ample runway to grow the business, right? You look at the international results have been really strong. We've been growing consistently double digit in the international business. So there's plenty of runway and opportunity in the countries that we operate. So we don't see the need to plant additional flags. In fact, I think our competitors have been reducing the number of countries because if you get into too many, it just gets a little bit unwieldy in terms of managing some of the smaller countries and sort of problems that could arise. So we've been very targeted in building up our business and capabilities in the countries that we operate in and had a lot of success.
- Joshua Chan: You mentioned the growth recently. And so I guess what's driven that outperformance in terms of growth, and how sustainable is it?
- James Tarangelo: Yes. I think this is a business I spent probably half of my career in the international business, so- I was international CFO before Treasurer. So the international business, has always think been viewed as a growth engine. So there's a sustainability in the Pro on growth, which is now the sort of mantra for the broader organization. I think Carl Mittleman, who's the COO; and Paul Sizer, the CFO, along with the country leadership teams have done a great job sort of elevating our capabilities and growing that business. They've consistently delivered exceptional results and solid growth. And you really see this growth-oriented model in action, right? That growth has led to significant improvements in margins, significant improvements in our supply chain capabilities, and taking advantage of the market opportunities, a lot of the international countries have a higher portion of first-time outsourcing conversions as well as some of those markets are newer. But the team has done a really nice job a lot of seasoned leadership teams within the countries and sort of a tenured sales team that is sort of driving the growth that we see.
- Joshua Chan: Okay. Okay. That's great. So switching to pricing. Could you just talk about how pricing works at Aramark relative to input costs, and over time, do you capture the inflationary components that you experience?
- James Tarangelo: Yes, I'll start with the context, right, about 2/3 of our contract, what we would call P&L or commercial, about 1/3 of our contracts we call cost-plus, which is really cost reimbursable, whereby we charge food and labor costs back to our clients. So we still work to optimize and keep those costs down. That's what they pay us to do. But the bottom line is in the event there's inflation, those costs generally get passed on. In the 2/3 of the business that we call P&L, our pricing capabilities are pretty strong as well. There's a portion that I call consumer more dynamic. So think about a stadium and the price for a beverage, which is dynamic, could change from a Taylor Swift concert to Philadelphia Eagles game, right? So that is dynamic pricing and we can react in conjunction with our clients to changing pricing, should inflation accelerate.
- There's a portion of the business, which I call more contractually-based pricing. You think about residential meal plans in higher education or in K-12, where pricing is essentially set once or twice a year, a lot of that pricing is happening now. And there, we work with our clients negotiate to make sure that we're embedding inflation expectations into those discussions that we're reacting and mitigating any potential inflation into the price. So that's how we think about the pricing now.

Joshua Chan: Okay. Now you mentioned the timing of those price discussions. So I figure this is around the right time to ask. But how are those conversations going, and how are you going about embedding potential uncertainty with the input costs in next year's discussion?

James Tarangelo: Yes. The teams and the operators do an excellent job. We obviously went through a period of significant inflation a couple of years ago. So it's really ingrained in how we think about managing the business the processes and tools in place is something we closely monitor to make sure we're getting the right pricing literally account by account in some of the businesses to make sure that we're getting pricing that is embedding inflation expectations into that. So, it's something that our operators are good at. They're good at negotiating. There's often CPI is in there at a minimum in terms of how those contracts and those discussions start.

I would say, in general inflation, I think inflation is running in line with our expectations. We talked about 2% to 3% inflation for the full year, globally, probably closer to 3%. In the U.S., we're operating probably about 2.5%. So it's operating within our expectations. I think even the print yesterday, it was a moderate uptick. But within our business, we're pretty steady at that 2.5% rate within the U.S. as we benefit from longer-term contracts for many products into the breadth and scale of our supply chain organization.

Joshua Chan: Okay. Great. So the utility, you haven't seen any large surprises in terms of kind of recent input costs, it sounds like-

James Tarangelo: We haven't. I mean, a good example, sort of the eggs as an example, I have gotten a lot of press. We have longer-term contract, multi-month contract for eggs. So we're not as susceptible to sort of some of the smaller outlets with- as those prices fluctuate. It's one of the benefits of having over \$20 billion of spend.

Joshua Chan: Sure. So I guess what's the typical lag between when spot prices go up and when you will start to see it in your contracts?

James Tarangelo: It depends, right? Again, we're constantly are working with our partners in supply chain to sort of mitigate and push back any price increases. So if you look back historically, we've done a nice job essentially keeping our price increases, our inflation sort of on the market basket or even better. So I think it's a steadier stream than you would typically see in sort of a smaller operation.

Joshua Chan: Okay. Great. And then on the labor side, how are you contemplating the labor inflation environment going ahead? And if there were to be more minimum wage increases, you know, how big of a factor would that be for Aramark?

James Tarangelo: Right now, labor availability is pretty strong, particularly in the U.S. It's pretty consistent. We talked about labor inflation in the 4% to 5% range is what we've embedded into our business plan this year, closer to 5% globally, closer to 4% or lower in the U.S. On top of that, we look to implement productivity, right? As I said earlier, sort of frictionless checkout, more automated checkouts so you don't need to attend it at every POS checkout point or some of the things that we look at, but ramping up and ramping down labor is something we do seem to range in what we do. We ramp up baseball from zero to thousands of employees. Think about higher education, the seasonal employment there. So we're very good at managing labor, sourcing labor, and ramping it up and sort of reacting to the supply and demand that's out there.

Joshua Chan: You just mentioned productivity. I think that's been a good source of margin tailwind recently. So what's -- how do you usually manage productivity? And then how do you feel about the runway of productivity kind of going ahead?

James Tarangelo: Productivity starts, again, with supply chain that's been a big lever in the margin improvement that we've been generating quarter after quarter. So increasing the size and scale of that organization, not just the managed services, but the GPO, allows us to get better negotiations with our suppliers

and manufacturers. The larger become typically the larger that the rebate percentages become as well. The GPO in general has more attractive economics and higher margins than the rest of the business.

So again, as that grows, we see natural margin accretion. So the productivity often starts there. It's often technology, as we've talked about some of the examples in sports and the technology to increase frictionless experiences, more transactions, and getting more productivity there as well.

And then AI, it's a tool aggregating our spend. We have a tool called Mosaic AI, which allows us to aggregate our spend literally over thousands and thousands of sites, thousands of SKUs to help us more harmonize our data and get a better picture of ours, which in turn gives us better negotiating capabilities with our suppliers and manufacturers.

Joshua Chan: Okay. From a margin perspective, you've recently talked about 40 to 50 basis points of kind of core productivity improvement. So I guess, how do you think about the sustainability of that in the coming few years?

James Tarangelo: We think it's very sustainable, right? We went from 4.6% to 5.1% margin, last year, 50 basis points improvement, generated 40 basis points of margin improvement in the first quarter. If you look at our fiscal '26 number, we just talked about getting 2% and through 5.9%. So it's just consistent 40 to 50 basis points of margin improvement, which again, it's really an output of the growth. I think historically, if you look back to the '15 to '19 time period, the margins were being generated by cost-cutting. To the extent it's coming from growth, it's much more sustainable, right, because it's being driven by the levers that we talk about on a regular basis, expanding the supply chain capabilities, maintaining disciplined control over SG&A. Generally, the model is to grow our SG&A at half the rate of sales, right? S-- and we've done a really nice job of doing that or better. You plug that into a model, that, we think, it will generate significant margin improvement. The middle of the P&L is another lever we talked about improving food and labor costs at the field and operations without sacrificing quality to our clients and then the new business progression, which is as we roll out large accounts, getting those margins improved each year to the steady state for the Aramark targeted margin or the levers we talked about. We've had good progress. I always focus more on a full year. You could have sort of some lumpiness quarter-to-quarter based on operating days and things like that. But the real proof is sort of the full-year momentum that we've had and the results that we've generated.

Joshua Chan: Sure. Sure. And I know sometimes when you ramp new business, it always starts at a lower margin and then you kind of optimize it over time. You are winning more new business this year, which is great. I guess the- how are you managing -- thinking about managing the margin impact as those new business kind of ramps?

James Tarangelo: Well, we've elevated particularly this is more on the U.S. side where the level of net new business was very low for a number of years leading up to sort of the '19 time period. Over the past few years, we significantly increased the level of net new for the organization and net new within the U.S. And what that does, it does create some initial margin headwinds. But as that business matures and ramps up, it reaches the steady-state Aramark margin, and it becomes a moderate tailwind, which it has in fiscal '25, I think we'll continue to be in fiscal '26 as well and this sort of reaches a steady state of business coming on and then business ramping up with margin accretion.

So at this point, we feel good about the guidance we provided with margins. To the extent we have very sizable or complex deals coming in, you could see some temporary headwinds. But again, that's not a bad problem to have in terms of our overall growth for the organization.

Joshua Chan: That's right. Okay. Maybe one more question on margins. I guess as we stand here, what do you feel like are the biggest kind of flex factors in terms of pluses and minuses to kind of margin expectations from here?

- James Tarangelo: We have good visibility, right? It's really -- it starts with growing the supply chain, growing the scale of our procurement, which we have very good visibility into. I talked about SG&A. That's something that's within our control. We manage that very tightly. We could add a lot of new business, a lot of accounts without having to add much in the way of corporate costs. It's something we've done pretty effectively. And we like the trends that we're seeing in the middle of the P&L as well. So I don't think anything really disrupting us off the course with what we expect there.
- Joshua Chan: Okay. Great. We have time for one more question, if anyone in the audience has one. Okay. I will ask this -- I will ask a repurchase question because that's the new development for you. And so just could you just talk about kind of your philosophy behind kind of timing, amount, and how you would like to approach and evaluate the buyback program?
- James Tarangelo: Sure. So as we said, we have a \$500 million program that was authorized in November. For us, we said we will be opportunistic, right? And we are being opportunistic when we see the equity trading here, we see a dislocation between the intrinsic value. At a minimum, we said we would mitigate any share dilution from stock-based comps, but being opportunistic under circumstances that we are now, where the stock is trading, so while balancing sort of still achieving our leverage targets, which I said working towards 3x and getting below 3x in fiscal '26. We think we can balance that off pretty effectively.
- Joshua Chan: With that, I think we're out of time. Please join me in thanking Jim for the presentation.
- James Tarangelo: Thank you. Appreciate it.
- Joshua Chan: Thank you.