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Leo Carrington:

Good morning. I'm Leo Carrington from Citi and delighted to have from Aramark at our Growth Conference, Tom Ondrof, CFO, Carl Mittleman, COO International, Chris Garside, head of M&A and biz dev I think at International. I think to start, Tom and the team have some opening remarks to make and then we'll move on to the Q&A fireside.

Tom Ondrof:

Well, thanks Leo, I appreciate it and thanks for everyone for being here today. We did want to go through a little bit of an update on the back of the Vestas CMD a couple of days ago and sort of update our analyst day disclosures from a couple of years ago. I want to emphasize there's absolutely nothing new here. So it is just sort of a reconciliation of where we've been and wanting to keep the string attached to certainly what Kim and the team talked about a couple of days ago, as well as the questions we've been getting about what does that mean for Romaco and for the food and facilities business going forward. So first a little state of the business. Certainly at this point, the top line results continue to reflect our commitment to growth and the growth mindset and the culture that John and the team have worked hard to put in place over the last few years as we've gone through the pandemic and now emerged.

AOI is being driven certainly by the fundamentals that we've talked about before, including supply chain, new account maturities. We ramp up to a cruising speed. We do have the situation right now where we have this price cost lag in a couple of our businesses that's continuing to make progress as we finish this year and move into next year. And then just a maniacal management of above unit cost and making sure we contain those. We continue to accelerate the reduction of leverage, most notably through the sale of AIM services this year, paid out a debt.

And again, as you guys saw, or many as you saw on Wednesday, Kim and the team presenting their vision for the uniform business over the next few years and I know they're excited to sort of finally be at the starting gate and get going. But I do want to talk through this, what we're calling a halftime review. We're, believe it or not, two years into or past the analyst day in December of '21 and sort of refresh everybody on where we are and what it means going forward as we separate the businesses going into the new fiscal '24.

So a little bit of review of the first half the year of the four-year analyst day. We've moved things forward. We are very pleased with the progress we've made. I mean, revenues are up 50% from 21 and you can see the leverage throughout the business on the bottom line with growth nearly seven times what the top line is on the bottom line. Margin has expanded from the low two and a half, 250 basis points roughly, and another roughly 75 expected this year. We continue to see that obviously going to progress as we move into the next couple of years of the plan. EPS moving forward and leverage coming down as we talked about. So that's what we've accomplished. Very proud of the teams and what they've done at this point and much more to come. So to take you back on this top line to December 21 in the analyst day, these numbers should be familiar to everybody.

We put together as a total company including uniforms obviously these targets 20 billion, 7 to 7.5% margin in implied dollar AOI EPS and leverage targets. We've done a few things internally decisions over the last couple of years that have modified those numbers. And then on the next slide, I'll show you a few external things that have modified the timing, most notably inflation and interest rates. But if you look at the... Kim talked to this on Wednesday, roughly 25 million of PUBCO costs, standalone costs, a number we've reiterated a lot over the last year as an expectation. It's coming in about what we thought and then the divestiture of AIM services out of the international business, which we did use to pay down debt and de-lever.

So it was an accretive deal and has helped us to move forward more rapidly on the de-leverage curve. So if you take those internal decisions and sort of reset the base, forget the spin to a degree, we would be at the updated numbers, slightly reduced margin based on those decisions, slightly reduced AOI dollars and then you can see improved leverage targets versus what we originally said and slight modification of the EPS.

So hopefully that all makes sense on where we were. So that's based on internal decisions. This slide is really based on what's happened in the macro environment. So if I looked at the timing of hitting those targets, originally it was all 25. We're going to hit 20 billion a year early. This coming year is going to be in excess of 20 billion when you add the two companies together. Margin, the headwind that's been provided from stronger new growth. And we've talked about the drag that that has out of the gate as well as this price inflation lag that it seems like two years ago was forever going to go from an inflation standpoint has provided a headwind on the margin as we've been pricing to catch up to inflation, but still feel very strong about that. I'll reemphasize this point that these numbers are way stations.

I mean, we feel very good about the business moving to and through these revenue targets, these margin targets, these AOI targets. This is again a way station on the way to much bigger numbers. AOI dollars on time as we've been talking about really unaffected, we've priced to recover costs. So it hasn't really impacted the dollars but has delayed the margin a bit. EPS interest rates up at least 250 basis points since we had analyst day is a bit of a drag on EPS and then leverage on target as we talked about before with the reduced goal. The original goal of three and a half we would hit early, but with the modification on AIM and that decision sort of trying to be intellectually honest here, we'll hit that lower target on time. So again, a bit early, bit on time and a couple things maybe a year late is where we're taking ourselves to. I keep feeling like I want to say any questions, but I'll keep moving.

So this has been sort of maybe the most important slide is what we've been asked quite a bit over the last couple of quarters as the spin has become closer and closer. What did you assume underneath that analyst day for food and facilities? So underneath the 20 billion, the seven to seven and a half, the 1.4 to 1.5, we didn't go obviously down into the sector for UPS or leverage. This is what we assumed for food and facilities. We've adjusted for AIM, which came out of those original assumptions. And so going forward, piecing together out of the total company, this was the expectation for food and facilities, greater than the $17 billion company, 5.9 to 6.4 on the margin, and a billion plus on AOI dollars. Same logic on timing. We'll hit that 17 billion a year early versus what we thought back in '21. Dollars look to be on time for the same rationale and margin, pushing out a year. Again, a two and through figure for all three of these numbers, our two and through concept for these. There are way stations on the way to bigger numbers.

So just to wrap up, we've got a lot of confidence in where we are and where we're going into fiscal '24. We've just finished our budget reviews in the last couple of weeks and we've built a lot of the budget and the expectations around these points under the catalyst for AOI performance. I won't run through all of them. We've talked about them and longer term we feel like we've really implemented a real strong growth framework and that we'll be able to sort of leverage that now that the pandemic is well behind us. Supply chain is normalizing. We've got the muscle built to price. So where inflation takes us at, we're more prepared than we were a year and a half ago. So we feel like we're in a good position as we finish this year and enter the new fiscal year. So Leo?

Leo Carrington:

Thank you for the slides

Leo Carrington:

... introduction. Can we perhaps start on top line and the growth trends, the gross new business, if you like. I think there's, in the themes of your ability to mitigate inflation for the clients, use your procurement scale and then technology adoption, user capital at the start of contracts, and then potentially even the client's increased focus on sustainability and hitting their own sustainability targets, pulling out whatever you want. If these are the drivers of your top line growth, how sustainable do you think each of them is? Because clearly the inflation pressure is now beginning [inaudible 00:10:50] but how much does that drive the growth? And also I'd love to hear the international perspective as much as the US.

Tom Ondrof:

I'll let them start,

Carl Mittleman:

Yeah, so thanks Leo, and thanks for having us. I think the way that I would address your question is that when we look at the power of growth and we look at the impact it can have, the components that you speak of are all important to the process. They may vary based on client need or geography or the actual market that we're serving, but they're all considerations of the growth process. When we look at the future, the funnel is actually very strong. We feel good about what is on the horizon, not just in '24, but when we look out to '25 and into '26, we feel good about the rigor and the rhythm that's in place from a growth perspective. And growth of course is selling new, but also retention of the core business and the strength that we've created around the world, I think is very impactful.

The key for us as we go forward is the consistency and the sustainability of that growth. And certainly you see the value and the benefit that that creates in what Tom just shared. Whether it's technology, whether it's ESG, whether it's customized solutions, we've got the ability to meet those needs. Every one of the sales that Chris and his sales leaders go on, every one of those opportunities is different. There's no template that we use to boilerplate a sale. It's all about understanding what the client needs are, listening to those needs, and then finding the right solution. And of course, putting the financial package together to create the right relationship.

Leo Carrington:

Thank you. And other trends? I know we'll have to wait to the year-end to get the retention and gross wins numbers, and any comments on US versus international, but are the trends uniform globally in terms of this propensity to outsource, which has structurally increased it seems?

Tom Ondrof:

Yeah, I think so. I mean, we continue to see an incredibly robust pipeline as we move into '24. I mean, we're well into the '24 selling season. In some cases, Chris will tell you, we're into '25. The complexities that Covid created did provide a boost to first time outsourcing, inflation and supply chain disruption has done the same, but we don't really, even though that may be cooling a bit, those rationales, the fundamental underlying reasons to outsource, to make changes are still there. We just believe so strongly in the marketplace and the opportunity to grow in it, and that reflects in the pipeline. What we've seen this year, and it's interesting because, and that's on the new side, so we continue to set records of winning new contracts.

What we've seen this year is we did have a very heavy retention year this year in terms of what went out. A lot of things that had been pushed out for a couple of years in terms of rebids or re-tenders and did virtually no activity in fiscal '20, a little in '21. So a bit more in '22. '23 ended up being a pretty heavy retention year, and a very strong year. Again, we talked about being above 95. So we feel good about that again, and then I think that's going to settle down a bit and be a bit more normal. So some people have asked us about is the retention to come? Is there this big bubble of rebates coming out? I think that happened this year.

Leo Carrington:

Okay. So what you will report at the end of the year is in arguably the harshest environment for this kind of rebate activity?

Tom Ondrof:

Much harsher than we saw the previous two years, and I would say harsher than we expected, and from all accounts as we look forward, harsher than we expect next year.

Leo Carrington:

Okay. It has been noticeable that looking at net new business, there's been a sizable contribution to that from the retention rate. Are the drivers of retention effectively the same drivers as your win ability for new contracts?

Carl Mittleman:

There are a lot of overlaps and similarities, but retention starts the day you win the deal. And it's all about nurturing that relationship. It's all about the execution, about fulfilling the commitments that you make to a client taking care of their customer, whether it's an employee or patient, a fan. And then it really starts from the first day that you are a guest in their home and works throughout that entire contract that you're together. So if you've done your job and you've built the right relationship, you essentially can become a partner for life. And that's a little bit different than when you're out in the selling process where you're trying to build that relationship from start with the promise of delivery. So retention really does come down to performance, that comes down to fulfilling your commitments and ultimately nurturing that relationship for the long term.

Tom Ondrof:

John talks a lot about ... Sorry. John talks a lot about these accounts being annuities, and I think one of the mind shifts we've been able to put into the business over the last few years is this idea that we play along. You're not always trying to take every nickel in the moment, that as we've dealt with the challenges we've had through covid, and you've seen certainly the margin take an impact as we've rebuilt the revenue line, we're rebuilding the margin. We're trying to do that very thoughtfully and with, again, when I say to and through on the margin, it's because we have confidence that we're building these annuities and these relationships as we go forward. So if we can't get it today, that's okay. We will continue to become more efficient, more effective, and value the relationship first and foremost over today's profit. And that's a mindset shift that we've really tried to build into the business.

Leo Carrington:

Okay. And have you seen any, I know you've been clear on your perception of CapEx as a positive driver for the business. Any changes in terms of what your clients are asking for with CapEx?

Carl Mittleman:

I don't think so. Not noticeable. I think, again, in every sell or every retention, there's a lever of capital that could be a component of that relationship, but I haven't seen a trend where there's a higher demand or a higher need for CapEx. I think for us it's about using CapEx in a smart way. Ways that we can innovate, ways that we can bring a solution to the table, ways that we can help solve a gap that the client may have, especially on the retention side, as Chris does a lot of work on that area, looking at ways that we can spend a small amount of capital to proactively extend. I think those are all components of the business, but no material change in the demand for capital in the business. I think Tom and John have been terrific stewards of the capital resource allocation and ensuring that we have what we need when we need it, to go out and win the business when capital's required.

Tom Ondrof:

And I've mentioned many times, we'd love to spend more. We get term, we get higher margins, we get generally stickiness when we invest in a client. We'll use it and we like to use it, but no real upward trend at the moment.

Leo Carrington:

Okay. Very clear. And on the matter of investments, and specifically in technology, earlier this year you launched AI enabled just cashierless outlets. This is obviously exciting. Is this a broader trend for your business?

Carl Mittleman:

So I think the component of technology is something that we'll always be at the forefront of trying to help solve for the client's needs. Is there a solution that works in that particular account or not? And some of our partners are very open to technology and innovation. Others

Carl Mittleman:

We prefer more of the traditional service mindset where there's a human interaction. So it's all about finding the right fit. And from a technology perspective, you could add technology across the entire portfolio, but now you're putting technology in just for technology's sake. And what it really needs to do is solve a need.

So when you've seen the autonomous stores go into stadia and arenas around the world, those are solving a need. That's helping increase the fan experience, speed of service, returning the fan back to their seat in a more expeditious manner.

We just installed the first autonomous store in a mine down in Chile. That helps the miner take their break, get their snack or beverage, cup of coffee, and get back into their workplace in a more efficient manner. So we're solving for a specific need. In the case of the autonomous stores, whether it's in AI-enabled vending, whether it's in kiosk-based ordering, whether it's an app-based experience, there are a number of connected solutions that we can offer to a client, but it has to fit in the right environment and really solve one of those needs.

But I do think, as someone who grew up in this business, we started talking about technology 25 years ago in a very different way, but it was still very important to the experience. It's just as technology has evolved, it's a different solve or a different solution that we're putting forth for the customer or the client.

Leo Carrington:

Okay. Outside of contract catering, some businesses have reported that technology and use of screens and pre-ordering of foods drives an uplift to spend. Is that something that you see signs of?

Carl Mittleman:

I think anytime you can increase the efficiency and the speed of a transaction or put the power of the purchase back to the consumer, you will see a propensity for them to spend more. And so yes, the answer to your question, we have seen an uplift in revenue when we've put those solutions in the right environments. The adoption is the critical component, and giving the consumer the choice whether or not to participate with the technology is key, but also enabling them and enticing them to participate becomes very much an important part of the overall marketing and messaging around the technology install that you're putting into an environment, whether it's a hospital, a stadium, a mine, or a corporate cafe.

Leo Carrington:

Some of your competitors are certainly increasing their interest in vending offers. Is this the same theme really as the autonomous stores consumers want something quick and are accustomed to this technology and it's just our expectation? Or is there something around the vending proposition specifically that's appealing?

Carl Mittleman:

I think it's a little bit of both. In certain environments, the vending solution, the autonomous store, the self-checkout can create a service opportunity when otherwise you may not have had a canteen or a cafe open. As you look at the return to work trends, micro markets, which have been very popular in our US business for years, but have really grown a lot, really do replace the traditional vending automat where now you're going to have more variety, more selections, fresh foods, and there's a number of tech solutions.

We partner with a group called getVICKI. I think we've probably got a hundred of their locations scattered throughout the world that are AI-enabled vending services that help create an additional service point and sometimes meet a need that may not have been served in the past. Overnight workers in a hospital, for example, the nurse that needs to have nourishment at two in the morning, you want to make sure they have something fresh and available for them. So vending does solve some of those needs.

Tom Ondrof:

Yeah, I think it's, to add to that, I think it's been driven a little bit by the return to work and the reduced populations because you want to ... the economics of a full cafe tend to require people to make it work.

And as you move down to 25, 50, 75 people on site, on a given day, even if there's more that could generally be there, you need different solutions. Micro markets fit the bill. We've got a very good robust in the US vending business, refreshments business with office coffee, micromarkets, traditional vending, and that has seen really good growth because of this solution to provide to 10,000 employees or to 10.

Leo Carrington:

Maybe thinking from high level principles, but using the Merlin contract as an example, to the extent you can speak to that, I think it's the largest contract you've had, certainly in international potentially for the whole business. Are there any sort of observations now that you are beginning to get up to speed with that contract? And in terms of the mix for Aramark going forward, are these large contracts increasingly appealing or actually coming to market now for you? What can we expect from these large contracts?

Carl Mittleman:

It's interesting, Merlin, we are just now fully mobilized. It really was a two-year process when you think about the opportunity to establish operations in five parks here in the UK and two in the US, and we are now up and running and it's a great place to be. And I commend the team for their hard work and their dedication and focus to transition this very complex business over the last two years. And I think we're in a good spot now to continue to transform and grow that particular partnership with Merlin. As their leadership team forms and thinks about what their future strategies are, we look forward to aligning with them and continuing to enhance the guest experience at the different parks around the globe.

But it certainly does create excitement for us in terms of what that potential business market could look like. Whether it's in the procurement side of the house or in the operating side of the house, there's a very fragmented marketplace around the globe in terms of outsourcing of food and beverage in theme parks. And I would actually maybe take a step back about entertainment destinations that bring a visitor to an attraction and provides an experience for them that is extremely memorable and one that's very special for them. And so I really even brought in where that potential would be.

Our focus has been on the mobilization and making sure we get these parks optimized, and now we'll start thinking about where we can leverage that going forward.

Chris Garside:

And I guess, Leo, just in terms of the future, they're always nice to get these few and far between contracts, but our core contracts are between $ 1 and $3 million in scale. So that's the core business that we operate in. But clearly that gives us scope then to think about larger contracts across the markets that we operate as we look at the whole pipeline, which is from what we're doing now and bidding on to what is emerging over the course of the next 18 months, two years.

Leo Carrington:

Thank you. And then, perhaps given the slides and the contents of the slides, it'd be worth turning the conversation to cost versus price, but also the burden on margins from ramping up contracts. I suppose your 2019 margin had very limited or a more limited overhead from ramp ups. Just firstly on the cost price dynamic, is this as simple as there being a sweet spot where it depends on the direction of commodities obviously, but a sweet spot where your price catches up to the costs or what help can you give us with the modeling in terms of the timing of this margin trajectory?

Tom Ondrof:

Yeah, probably not enough or good enough for what you want, but certainly Q4 was a step forward in the most impacted businesses, which was US Corrections and Education. The July 1st date was a pivotal point for them. The rest of the business as we've talked about either had really very dynamic pricing like an S&E basically event by event, or it was sort of chipped away at it as we went throughout the year.

So we'll see an impact in Q4. That will carry into next year for those businesses. But as Carl's mentioned previously, earlier today, we've built the pricing muscle back into the business. I mean, we had a generation of managers who had never experienced inflation or really the need to have pricing conversations with clients. And the last year has really forced that conversation and forced that capability.

Tom Ondrof:

So while inflation is moderating, I don't want to get too far forward or too optimistic about it. And certainly we're planning for it to remain mid single digits. If it's better, that's great, but we can't let our foot off the gas when it comes to pricing and staying ahead of that. We've got much more confidence in our ability to do that, to have those conversations with clients to make sure that that lag is minimized going forward and is acute as it was when we were all caught off guard with transitory inflation, that it was like, "Flatten the curve with COVID. Two weeks and it'll be gone." It didn't happen that way. So we're assuming it's going to stay at elevated amounts. Certainly not the high single digits we've been experiencing, but we don't see it being 1-2% either.

Leo Carrington:

I think the points about your teams is interesting. Are clients also ... presumably all clients are now fully accustomed to you asking for price. Is that making discussions any easier, or ...?

Tom Ondrof:

I think to a degree. I'll start. I think to a degree, but I think the key is we're keeping the value proposition front and center. So just to use numbers, if inflation is 8%, how do we come to them with a 4% or 5% price increase so that we're mitigating in other ways? And that's what we've been working on. So when we come to them for pricing, it's not hat in hand, it's with a common solution to help them and show them value. So that's made the conversations easier as we've gone along and they will have to continue.

Carl Mittleman:

I was going to just add, it's been an education process, both for our frontline management who's going to have the conversation, but also an education for the client and the consumer in terms of what happened over the last 18 months. We were all caught off guard everywhere in the world with the inflationary environment. And it did require a recalibration of context of why are we having these conversations and what does it mean to the business? And as Tom mentioned, how can we mitigate where possible? How can we adjust where possible? And where do we need to take price as needed?

So I think the price as appropriate mindset is what's kind of now the muscle memory of the company and now the expectation from our clients that we're smart about it, that we're open and transparent with the dialogue, but also that there's an acceptance that this is the world we live in. Just as Tom mentioned that this generation of managers didn't exist, there was a generation of clients that didn't exist. So it really was about working together to find those solutions and the rigor and the muscle memory will allow us to ... I think we were probably chasing inflation for a good amount of time. And now if we can pace with it, we'll be in a really good spot and at some point it will moderate and we'll be in a really great place for that period of time.

Tom Ondrof:

Just besides the mindset of the manager, we built a much better flow of information within the business from supply chain to the units that really keeps them updated weekly, commodity pricing and really equip them with data to have those conversations. So it's not just the client being prepared, our unit managers' understanding that the conversation needs to take place, but the fact that we've got a discipline and a rigor and data behind that to help the conversation.

Leo Carrington:

And I think the implication from the margin trajectory is that, and correct me if I'm wrong, but the pre-opening costs and the ramp up costs continue to be loaded into the business, which implies I think a strong outlook for growth. In terms of your visibility, I know Chris you mentioned out to 2025, but in terms of your visibility, what can you say about the early discussions, the sales funnel, and what gives you that confidence so far out?

Chris Garside:

I think look, first thing [inaudible 00:34:31], the pipeline is a strong pipeline so that we have good visibility of that over the course of the next 18 months, two years, and further out in some cases, but equally so, in terms of if you think about going back to 2021 when there was very little growth in the business, we're now into a sustainable disciplined approach on business. So we cycle those mobilization costs. Yes, initially a drag, but then we start to cycle it and you start to get into a really sustainable program and a good momentum around the processes that we operate. So you can see the growth, you can see the discipline, you can see the sustainability of it, and you can see the sectors that we're growing in across all geographies, across international. Certainly Tom could speak to the US, but that's how we see it.

Tom Ondrof:

But the discipline that Chris has brought to the international business and then rebuilding the US sales base built off a CRM account by account conversations weekly within the sales teams. Chris is meeting with his country sales leads, constantly specific account strategies to what it'll take to win, understanding when we need to bow out because we don't have a relationship or the proper solution. Those disciplines have been rebuilt into the business, particularly in the US, but maintained and lifted even higher by Chris and the international team. So that we have from ... when we say the pipeline's robust, I mean it's account specific, it's quarter by quarter, it's this year, it's the stuff that's beyond a year that we're working on in the background. So that's where the confidence comes from.

And then we also know what we've booked this year that's going to roll into next year and provide a lift to that next year's revenue that we didn't get the full realization of this year. So it's just that combination and that consistent year-on-year mindset that we're starting to get into. We're now two and a half years into the consistent growth model. Probably as we get into '24, '25, you'll stop hearing or seeing about this startup cost phenomenon, because to Chris's point, we'll be laughing and it'll be in one year and the next, they neutralize, they equal out.

Chris Garside:

And as the capability is lifted, so as the attraction of talent, as we continue to work through that momentum and equip our countries with the necessary resources and tools, investment criteria to invest in new business.

Leo Carrington:

Okay. And last question from me. I know we're coming up for time. And feel free to append any other thoughts that [inaudible 00:37:26] over the last 40 minutes or so, but the leverage pathway is obviously very encouraging. And [inaudible 00:37:32] anticipated after aim disposal. Something that's been an interesting feature since 2019 is a very limited M&A in the sector as a whole. Do you think that's going to persist in midterm now and in terms of Aramark's business specifically? Are you comfortable with what you have, any sort of remarks in M&A?

Tom Ondrof:

Yeah, it might be ... I can't speak for the other companies. It might be just sort of people are satisfied with the core, the countries that they're in, and certainly we are. We're not interested in planting flags. We like the lines of business we're in within countries, as well as the countries we're in. So it's a specific purpose for any M&A right now. It's really got to bring some unique sort of sub-sector to us or a management team that's just as outstanding. We're not interested in buying volume and we're not interested in planting flags. So I think that may be what you're seeing. We've made some very targeted deals, tuck in deals over the last two, two and a half years, both internationally. In the US, not much, but they've been very specific with specific reasons. And we'll just keep that sort of mentality going forward.

Chris Garside:

Yeah, I would say that we have a strict criteria around M&A, but it has to add something to our business. It's got to be ... we're talking about real capability or pipeline activity in sectors which are core to us or are in our core business, the particular sectors that we'd like to get into.

Leo Carrington:

Okay. Fantastic. Well, Tom, Chris, Carl, thank you very much.

Tom Ondrof:

Thank you.

Carl Mittleman:

Thank you.